

The Left, the Right, and Globalization

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DON'T BE TRICKED INTO THINKING that what is going on is a debate about “free trade”—the unhindered exchange of goods—because it is not.

All of the grand neoliberal transformations of the international economy over the past three decades—which include the transformation of the General Agreement on Tariffs and Trade (GATT) into the World Trade Organization (WTO) in 1995, granting China “most favored nation” status in 2001, as well as many other treaties beyond NAFTA, the TPP, and the TTIP—are first and foremost about increasing international protection for intellectual property rights (patents and copyrights) and making it easier for financial capital and productive facilities to relocate anywhere they choose. Those pushing for these changes want people to think the debate is about trade liberalization to distract them from what is really being done, which is to further empower multinational corporations. Trade liberalization has been the *least* important component of the neoliberal globalization process.

Prior to World War I, average global tariffs were low. World War I led many more-developed countries (MDCs) to raise significant tariff barriers, which were not reduced during the 1920s and were then further increased as MDCs tried to protect jobs from import competition during the Great Depression. This is where the phrase “beggar thy neighbor” came from, and the consensus after World War II was that while raising tariffs might seem rational for an individual country in the short run, it invites retaliation and becomes a negative-sum game globally, thus everyone loses in the long run. Founded in 1947, the GATT did more to reduce tariffs and promote “free trade” in the decades after World War II than the WTO has done to reduce tariffs since its founding in 1995—giving the lie to the claim that neoliberal globalization is primarily a push for trade liberalization.

Not only was trade liberalization GATT’s main mission, the emphasis under GATT was primarily to reduce tariffs in MDCs. This provided some leeway for less-developed countries (LDCs) to industrialize through “import substitution.” It also initially advantaged the United States because unlike other MDCs, its productive infrastructure had not been reduced to rubble during World War II, so that lower tariffs for all MDCs boosted U.S. exports more than imports in the post-World War II years. More importantly, the GATT had negotiated reductions in tariffs without forcing countries to acquiesce to “trade-related investment measures” and “trade-related international property rights,” whereas the WTO has made acceptance of these provisions a requirement for membership. So don’t be distracted by talk of “free trade.”

Neither Neoliberal Globalization ...

Instead, ask yourself whose interests are served by protecting international property rights and liberalizing both direct foreign investment (DFI) and international financial investment (IFI, or portfolio investment), and whose interests are harmed. Because what neoliberal globalization has actually been is a corporate-sponsored political project to rig the global economy ever more in the interests of multinational financial institutions, multinational corporations, and corporate patent holders at the expense of ordinary people everywhere.

In MDCs, less-skilled industrial workers have been hurt first and foremost by liberalization of direct foreign investment, as their employers both threaten to and do move their jobs to LDCs where wages are much lower. In addition, as Heckscher-Ohlin trade theory predicts, trade liberalization puts downward pressure on “payments to relatively scarce factors of production” because it makes them less scarce than when there was less trade. In the case of the United States this means trade liberalization depresses the wages of less-skilled workers. Combined with a decline in unionization, liberalization of DFI and trade has led to a dramatic deterioration of employment and wages of less-skilled workers in MDCs. After forty years of this, it is hardly surprising that many less-skilled workers in the “industrial heartlands” of MDCs rebelled against the political establishment that had presided over this grand transformation and voted for Brexit in the UK, Sanders over Clinton in the Democratic primaries, Trump over a field of establishment Republicans in the Republican primaries, and finally Trump over Clinton in the U.S. general election.

Meanwhile in LDCs the effects of financial liberalization were disastrous, as currency crises triggered deep recessions that took years to recover from in Mexico (1995), Thailand (1997), Malaysia (1997), Indonesia (1997), South Korea (1998), Russia (1998), Brazil (1998), Turkey (2001), and Argentina (2002). And since neoliberal globalization threw more peasants off the land in LDCs than it added new jobs in labor-intensive manufacturing, there was often little or no increase in LDC wages, with the notable exception of China. Because the Chinese government protected its currency from international speculators and deployed a highly visible hand to orchestrate a successful industrialization strategy, productivity in China rose dramatically over the past three decades, some of which finally even trickled down to some segments of the Chinese working class.

... Nor Xenophobic Isolationism

For decades the ill effects of international financial liberalization were confined to LDCs. But in 2008 the biggest financial crisis since the crash of 1929 hit the United States and the European Union harder than elsewhere. When establishment political parties in MDCs bailed out the banks but not the victims of foreclosures, and allowed unemployment to linger far longer than necessary, conditions were ripe for political rebellion.

Center-right and center-left political parties in MDCs have taken huge hits everywhere as they struggle to maintain power. Sometimes the revolt has been led by left-wing forces such as Syriza in Greece, Podemos in Spain, Uncut and Jeremy Corbyn in the UK, and Bernie Sanders in the United States. But unfortunately the populist rebellion against the establishment has more often been led by right-wing politicians such as Marine Le Pen in France, Nigel Farage in the UK, Geert Wilders in the Netherlands, and most spectacularly Donald Trump in the United States. Right-wing populists scapegoat immigrants and refugees from wars and poverty—caused in no small part by globalization and imperial machinations—denounce international economic treaties and organizations, and threaten to raise tariffs dramatically. It remains to be seen how much of their pre-election rhetoric is a program with concrete substance and how much is pure demagoguery.

The left has honed a compelling critique of neoliberal globalization. (See Hahnel, “What Mainstream Economists Won’t Tell You About Neoliberal Globalization,” *Socialist Studies* (1,1, 2005), 5-29.) The left also has had little difficulty denouncing racist campaigns by right-wing populist forces against immigrants, refugees, Muslims, and people of color as vicious scapegoating—even when doing so makes it more difficult for left politicians to compete against right-wing populists for the allegiance of white, working-class voters. But the left has struggled to agree on an alternative international economic program and consequently has had difficulty distinguishing itself from right-wing populism except to champion multi-culturalism over racism and bigotry.

... So What Is to Be Done?

If neither neoliberal globalization nor xenophobic protectionism is the answer—both of which are variants of corporate-managed globalization—what international economic program would serve the interests of the vast majority in both MDCs and LDCs? It is important to state the goal this way, because if in our haste to compete against right-wing populism we begin searching for a program that benefits workers in MDCs only, we will betray our fundamental principles and lose global allies unnecessarily. There is no reason that international trade and investment cannot benefit workers in both MDCs and LDCs if done properly. However, to do this: (1) International finance must be restrained so it does not trigger currency crises which generate recessions. (2) A more extensive global division of labor must only happen when it truly does generate global efficiency gains. And (3) global efficiency gains must be distributed equitably between citizens of MDCs and LDCs alike. Because all this can be done so as to leave worker-consumers in both MDCs and LDCs better off, there need not be a conflict of interests.

It is also important to be clear that we need a program short of replacing global capitalism with global eco-socialism. To command the attention of a wide audience, and compete successfully against right-wing populism, we need an international economic program that progressive governments in capitalist MDCs can pursue today. This does not mean giving up on preaching the virtues of eco-socialism over capitalism, nor on explaining the need for a “next economic system,” nor on organizing “experiments in equitable cooperation,” nor on promoting “future economy initiatives.” But we also need a coherent international economic program for the here and now. What does it look like?

Traditionally when left economic strategists approach international economic policy they start with tariffs, regulations on DFI, and regulations on IFI—they do not start with the environment. But they should! Because for the next two decades winning the war to prevent cataclysmic climate change before it is too late is our most urgent goal. If one begins with this task in mind the immediate conclusions are:

- Energy systems and economic infrastructure must be completely transformed in all MDCs.
- LDCs must pursue development paths that are *not* based on fossil fuels.
- All this must be accomplished in less than two decades.

And the important consequences that follow from these conclusions are:

- The problem of how to eventually transition to an economy where technological advances have eliminated the need for much work is still decades away.
- Large multinational companies must play a major role in bringing this necessary transformation about.

The good news when one begins this way is that there are plenty of socially useful jobs for everyone—in MDCs and LDCs alike. The bad news is that the left must learn to do something more nuanced than simply categorically denounce multinational corporations as the universal boogeyman. And the trick is how to make sure that the considerable income generated by global full employment is distributed more equitably. Concretely, what can progressives in MDCs do?

The Environmental Movement

The environmental movement must support an effective and equitable international agreement (which may no longer be a treaty). Such an agreement should (1) reduce global emissions sufficiently to keep average global temperatures from rising by more than 1.5 degrees Celsius; (2)

assign responsibility for emission reductions according to countries' differential responsibilities and capabilities; and (3) leave the choice of whether to certify carbon emission reduction credits for sale, and to purchase credits, up to national governments. (See Hahnel, "An Open Letter to the Climate Justice Movement." *New Politics* (56, Winter 2014), 76-83.) This will establish powerful incentives for MDCs to decarbonize their economies, provide financial resources for LDCs to pursue non-fossil fuel development trajectories, and distribute the burdens of preventing climate change equitably. Whereas the environmental movement in MDCs has fought hard for reducing carbon emissions, it has been largely missing in action on assigning national responsibility for reductions, and terribly confused and inconsistent on carbon credits. To forge an effective alliance with progressive movements and governments in LDCs, environmentalists in MDCs will have to get up to speed on assigning responsibilities and stop squabbling over carbon credits.

The environmental movement must champion a domestic Green New Deal. There are more jobs in energy conservation, expansion of renewable energy production, and building a smart electric grid than there are in coal and natural gas production. As long as there are plenty of jobs transforming MDC economies, there is no need to wage what would be a losing fight in any case to bring back jobs from China and Mexico producing shirts, TV sets, or smart phones. Just as jobs mining coal are gone forever, many jobs producing manufactured consumer products are gone forever as well. Trump isn't going to bring them back, and hopefully those who voted for him because they believed his promises to do so will become quickly disillusioned when he fails to deliver on this campaign promise. But the left should understand that we can't bring back many of these jobs either. The important thing is that we don't need to, because what we can do that Trump isn't going to do is provide plenty of green jobs as well as jobs producing next-generation machinery for export.

The environmental movement not only has to emphasize that a Green New Deal provides the only remedy for joblessness in MDCs, it must also join in principled solidarity with the labor movement and insist that these new jobs be good jobs, with decent pay and benefits. Since large corporations producing renewable energy and transforming our built infrastructure will be part of the political coalition pressing for a Green New Deal, and since these corporations will have to be pressed hard to embrace unionization and pay decent wages with benefits, this is a key role that the environmental movement will have to embrace in order to keep a red-green alliance together. The days when the environmental movement could wash their hands on the issue of unionization and fair wages, and say to labor, "That is your problem not ours," are over.

The Labor Movement

The labor movement is weaker than it has been in over a hundred years and has reached a crossroad. Traditionally the labor movement has left the choice of what it produces to others and fought for more jobs, better pay, and better working conditions. In a world where what we are producing and not producing has become the crucial issue of our time because it will determine whether or not we trigger climate disaster, labor can no longer be agnostic about what workers produce.

Labor cannot continue to fight for more jobs mining coal, extracting natural gas, and building pipelines and fossil fuel export facilities and expect other progressive movements to ally with labor and support labor in its fight for better pay and working conditions. And make no mistake about it, without broader support the labor movement will continue on its march to oblivion. Labor must make a clean break and hitch its wagon to the Green New Deal. The bargain is this: Labor will stop lobbying for environmentally destructive jobs and instead throw its political muscle behind fighting for the largest Green New Deal possible. In exchange the environmental movement will pledge to do everything labor asks of it to help labor make those jobs good jobs—steady jobs with career ladders,

well-paid jobs, jobs with benefits, jobs on which a worker—male or female—can raise and support a family.

There are many progressives in both the environmental and labor movements who realize that this is the deal that both must strike if they are to be successful. Unfortunately this red-green alliance has suffered numerous setbacks as elements in both camps have betrayed the other camp repeatedly over the years. The environmental movement was painfully slow to realize that it needed to craft policies that did not generate adverse effects on jobs and income distribution. Most recently the behavior of leaders of some building trades unions—doing photo ops with President Trump in the Oval Office and lobbying to restart pipeline construction that the environmental movement spent eight years pressuring the Obama administration to finally shut down—is a huge setback. At this point there is a clear internal problem in the labor movement. And if the labor movement does not solve this problem—which may require some organizational splits—the labor movement will end in the dustbin of history. The choice is really that simple.

Fixing Trade

One can quibble about whether U.S. exports are more labor-intensive than imports on average. But there is little enough difference to matter, so that if we exported as much as we imported there would be little loss of jobs, if any. Instead it is trade deficits that cost jobs. Every year from 1960 to 1970 the United States ran a trade surplus, and our exports created more jobs than our imports lost. Every year from 1976 through 2016 the United States has run a trade deficit, and our exports have created fewer jobs than our imports have lost. There are many measures the government can take to generate employment to make up for job losses caused by trade deficits. But the fact remains that forty years of chronic trade deficits make it more difficult to provide jobs for everyone who is able and willing to work, which in turn puts downward pressure on wages.

In the long run, the U.S. needs to develop the kind of strategic trade policy pioneered by Japan and copied by other “Asian Tigers” like South Korea. After World War II the Japanese Ministry of Trade and Industry used differential tax rates and terms of credit so that companies in lower-productivity industries like textiles and toys would be those who moved operations abroad, but only after firms in higher-productivity industries like steel, automobiles, and electronics had developed sufficiently to absorb employees who lost their jobs. The choice is not between managed trade and free trade. The choice is about *who* will manage trade. Corporations have been allowed to manage trade policy in the United States, which they have done very much to their advantage. Instead we need the government to step in and manage trade policy and orchestrate changes in trade patterns to maximize increases in labor productivity. Moreover, when all countries take this approach the result is a positive-sum game where productivity rises more quickly everywhere.

However, the transition from managing trade in the national interest, not the interests of corporations, will take some time. In the short run, the most effective way to reduce trade deficits is to allow the dollar to depreciate, that is, to fall in value relative to other currencies, not to raise tariffs, which is not only a regressive form of taxation but more likely to invite retaliation, as Trump has already discovered. The negative consequence is that U.S. consumers will pay more for imports. But there is no better time to take this hit than when inflation has been historically low for going on a decade. Other policies will be needed to make sure that wage increases in the United States once again keep pace with increases in labor productivity. But eliminating chronic trade deficits will help since it keeps labor markets tighter.

International Financial Regulation

An unregulated financial industry is an accident waiting to happen, as we discovered when

deregulation of the mortgage industry, the insurance industry, and the rating industry predictably led to the greatest financial crisis since 1929. (See Hahnel, *The ABCs of Political Economy* (Pluto Press, 2014), 193-199.) But elimination of safeguards to prevent international financial crises, put in place at the Bretton Woods conference after World War II, occurred even earlier than domestic financial deregulation.

Properly regulated, the financial industry can provide a useful service and help the real economy perform better. But when unregulated, the financial industry becomes the tail that wags the dog, to its own delight but to the detriment of the dog. And unfortunately, as we discovered in 2008, the dog is the real economy where the rest of us live and work.

Not only is financial regulation necessary to prevent more financial crises, it is also needed to facilitate the massive redirection of investment resources that a Green New Deal requires. The job of the financial sector in capitalist economies is to channel savings into socially productive investments. Instead, for the past forty years Wall Street has been channeling savings into one asset bubble after another. There is only so much the government can do to jump-start a Green New Deal using fiscal policy. We need a much bigger Green New Deal than a green fiscal stimulus can generate. This can only happen if the financial sector begins to channel loans into investments in energy conservation and clean energy, and that will only happen if the government intervenes in the financial sector more rather than less.

The answer is either strong, competent regulation of the financial industry, or nationalization. Accepting deposits and making credit-worthy loans is not rocket science and is fully within the skill set of public servants. And guiding loans to the most socially beneficial borrowers and industries must be done according to priorities set by international and industrial planning in any case. Wall Street has no factual basis to any claim to expertise in this regard.

You Can't Take Our Jobs and Run

When capital is free to pick up and move plant and machinery to any country where wages are lower, labor is put in an untenable bargaining position: "Do you want to keep your job? Then sign a give-back contract." Capital has long been more mobile than labor, but neoliberal globalization has magnified the difference. In the mid-twentieth century, when unions were organizing workers in the Northeast and Midwest they only had to worry about companies picking up and moving to the South where there were no unions and wages were lower. Now unions anywhere in the United States must worry that if they do not capitulate in negotiations, companies that are ever more footloose will pick up and move to Mexico or China where wages are even lower than the depressingly low U.S. minimum wage.

On December 1, 2016, less than a month after becoming president-elect, to great fanfare, Donald Trump announced that he had met with Carrier, a unit of United Technologies, and convinced them to keep 1,100 jobs in Indiana that they had previously scheduled to move to Mexico. The number of jobs saved turned out to be only 730, and 1,873 jobs were still lost, and the concession to keep 730 jobs in Indiana was made only after the State of Indiana, where vice-president-elect Mike Pence was still governor, promised Carrier an additional tax break of \$7 million. One has to wonder if the 730 who kept their jobs would not have preferred to simply receive a payoff of \$96,000 each. But the important point is that the left should be clear that the problem with what Trump did was not that he intervened to save American jobs. The problem was not that the government has no legitimate role to play with regard to companies moving jobs abroad. Instead the problem was that his claims of success were exaggerated and deceptive. The problem was that what he achieved was a drop in the bucket rather than a systematic approach to saving significant numbers of jobs. In short, the problem was that it was merely a publicity stunt. Not surprisingly, Trump has moved on to new

publicity stunts in other areas, and we have heard nothing further about our “great negotiator” saving American jobs single handedly by making “great deals.”

As long as capitalism is with us the only solution to this problem is to erect barriers to deter companies from changing location when they are earning a reasonable rate of return and when moving would be detrimental to the communities where they are located. At a fundamental level this means challenging the notion that stockholders should always be free to do whatever they wish. This means distinguishing between a legitimate rate of return and the notion that any rate of return one can achieve is what is fair and legitimate and beyond challenge or rebuke. In the case of monopolies, it is an established economic principle that if left to do as they please, stockholders would charge prices and enjoy profits that are unwarranted and unfair. The accepted response is regulation, where regulators restrict prices to yield a fair rate of return lower than what the monopoly would otherwise achieve. We must make the same case about large employers in our communities. If leaving would seriously damage communities where they operate, and if they are making a reasonable rate of return, they should not be free to take advantage of their greater mobility to move abroad to earn an even higher rate of return elsewhere.

Just as federal legislation requires an environmental impact review, we can pass legislation that requires a community impact review when companies wish to move operations abroad. Nor is there anything preventing the federal government from passing legislation to authorize a division of the Justice Department to monitor and prosecute U.S.-based firms that move plants abroad, just as the anti-trust division of the Justice Department monitors and prosecutes firms for price fixing. State governments could also review plant shutdowns just as state governments regulate private utilities that are monopolies. In the meantime, an idea that Trump floated when a candidate, but we have not heard about since he was elected, is an import surcharge on goods of a company that moves operations outside the United States and now wants to sell its products again inside the U.S. Until we can develop the institutions and policy tools necessary to carry out strategic trade and industrial policy, surcharges on companies immune to moral suasion are not a bad idea.

Conclusion

Carving out a coherent approach to international economic issues that is different from both neoliberalism and xenophobic protectionism is a crucial task for the left today. There is a massive popular audience tuned in to this subject, and the battle over who will successfully attract their attention and allegiance will go a long way toward determining how the world evolves over the next few critical decades. Critique is important and has a role to play. But critique alone is not sufficient. Without a coherent alternative we will lose, because you can't beat something with nothing.

The key to a progressive alternative is (1) a massive Green New Deal, and (2) a much more active role for government. Center-left political parties in Europe and the United States made a huge mistake acquiescing to neoliberal changes in the global economy championed by banks and multinational corporations, for which they have recently paid a steep price at the polls. Instead, revitalized, progressive political parties must work with progressive parties in other countries to redesign treaties and institutions like the IMF, WTO, and World Bank to help regulate and manage international trade and investment in the interests of citizens not corporations.

The U.S. government must adopt policies, many of which have been pioneered elsewhere, to orchestrate socially beneficial changes in trade and investment patterns, and most importantly, to guarantee workers in declining industries an easy transition to work in industries of the future through retraining, relocation, and income support during their transition. And this program must be coordinated with aggressive fiscal and monetary policies to guarantee full employment and rising wages. Once we have a coherent alternative, we will also have to learn how to present it in simple

terms that can be understood by ordinary people who are increasingly hard-pressed to simply keep their heads above water.

Footnotes