

President Trump and free trade

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President Donald Trump did not wait until he took office on January 20th, 2017 to start implementing part of his economic program, mainly through protectionist pressures and the calling into question of free trade agreements. Whether it is the Trans-Pacific Partnership agreement, the NAFTA (signed several decades ago with Mexico and Canada), or even a measure calling into question the authority of the WTO, it is a general offensive against the very principle of free trade that we are witnessing. The fact it comes from an administration supposed to be one of the most “pro-business” of recent years is in itself raising a lot of questions. Could the so-called “Trumponomics” surprise us? It is important to understand how this kind of protectionist turn could merge with other projects and above all those concerning infrastructure that were prominent in the then candidate Trump’s campaign.¹ What lays in store for the coming months, and how could it shape the future of global trade? These major questions are now on the agenda of all important developed nations.

A paradigm shift?

It is quite significant that free trade is being challenged, here and now, by the United States. Usually challenges come from nations of the South and from leftist or populist leaders. For nearly forty years, the United States had been the driving force in most free trade treaties. This trend was obvious since the XIXth century, and quite prominent in the early Bretton-Woods years. Of course these proposals were well received within the framework of the European Union which developed a notorious love affair with free trade. This organization shared with the United States the belief that free trade was the way of the future. We have witnessed how the EU, through the European Parliament, gave its blessing to the CETA. This vision, moreover, was rooted in a very ideological conception of the virtues of free trade, supposed to bring peace, or at least the end of conflicts. But the last twenty years have not been encouraging for free-trade advocates. Conflicts were not eliminated and the progress of free trade stopped with the crisis of 2008–2010. The Doha Round has been a resounding failure. This could explain why the turning point taken by the United States under the direction of President Donald Trump, however spectacular it may be, is less astonishing than one might have thought.

¹ Baker D., “The Trump Stimulus and the Money Obama Left on the Table” in <http://cepr.net/publications/briefings/testimony/the-trump-stimulus-and-the-money-obama-left-on-the-table>

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Globalization is not, and never was, “happy” whatever various ideologues said. The idea that “sweet commerce”, was to be substituted for warlike conflicts, was much propagated. But, in truth, it was only a myth. Still, the warship preceded the merchant ship. The dominant powers have constantly used their strength to open up by force markets and modify the terms of trade as they see fit. The globalization that we have witnessed for nearly 40 years has been in combination with financial globalization, which has taken place with the unraveling of the system inherited from the Bretton Woods agreements in 1973. We are seeing today the result: a generalized march to regression, both economic and social, which strikes first the so-called “rich” countries but also those designated as “emerging” countries. It has led to the overexploitation of natural resources, plunging more than one and a half billion human beings into ecological crises that are getting worse every day. It has caused the destruction of social ties in a large number of countries, and there are also countless masses in the specter of the war of all against all, to the shock of an exaggerated individualism that suggests other regressions.²

The great reversal

At the root of this reversal we see the decline in incomes of the lower middle classes and the working class. And this drop is largely due to globalization.³ The gap between the highest 1% and the lowest 90% has greatly increased since the 1980s as shown in Thomas Piketty’s work.⁴ This discontinuation was confirmed by another study dating from 2015.⁵ This discrepancy is also reflected in the drop-off between the rate of increase in labor productivity and the rate of hourly wages. While the two curves appear almost parallel between 1946 and 1973, which implies that productivity gains have also benefited wage earners and capitalists alike, it is no longer the case after 1973. Since then, wages have increased significantly more slowly than labor productivity, implying that productivity gains have now mainly benefited business and shareholder profits. This situation worsened in the 1990s, obviously as a result of globalization and open borders.⁶ This trend, already perceptible before the 2007–2010 crisis,⁷ was not reversed by the implementation of anti-crisis policies, to the contrary. This had been one of the major failings of the Obama administration, one that fostered anger among the middle-class and would explain Donald Trump’s success in the Presidential race. The attack against NAFTA is here both symbolical and quite accurate. NAFTA was (and still is) a quite typical agreement that was thought to help regional integration. It turned out to be a mass-destruction weapon, as far as workers’ incomes are concerned, both in the United States and in Mexico. A recent paper by the director of the CEPR, Mark Weisbrot, clearly establishes NAFTA’s cost for Mexico.⁸

² J. Généreux, *La Grande Régression*, Paris, Seuil, 2010.

³ Bivens J., “Globalization, American Wages, and Inequality” *Economic Policy Institute Working Paper*, Washington DC, 6 September, 2007.

⁴ Piketty T. and E. Saez, “Income Inequality in the United States”, *Quarterly Journal of Economics*, February 2003.

⁵ Mishel L., Gould E and Bivens J., “Wage stagnations in 9 charts”, *Economic Policy Institute*, Washington DC, 6 janvier 2015.

⁶ See G. Irvin, “Growing Inequality in the Neo-liberal Heartland,” *Post-Autistic Economics Review*, 43 (September 15, 2007), pp. 2–23, <http://www.paecon.net/PAERreview/issue43/Irwin43.htm>

⁷ Sapir J., “Global finance in crisis”, *real-world economics review*, issue no. 46, 20 May 2008, pp. 82–101, <http://www.paecon.net/PAERreview/issue46/Sapir46.pdf>

⁸ Weisbrot M., “NAFTA Has Harmed Mexico a Lot More than Any Wall Could Do” in <http://cepr.net/publications/op-eds-columns/nafta-has-harmed-mexico-a-lot-more-than-any-wall-could-do>

In the United States, this evolution was psychologically fundamental, because it meant the “end” of the American dream for a vast majority of the population. This was marked by the very clear difference between the rates of change in average income, which continued to rise, and the median income⁹. But the United States was not the only country where this situation manifested itself. It should be noted that it is also present in Great Britain, which is not politically without consequences if we look to the BREXIT in this context.¹⁰

Whatever figures we are given about the sharp drop in the unemployment rate under President Obama, the awful truth is that the labor market is still very weak by many measures. The employment rate for workers aging 25–54 is still 2.0% points below the pre-recession level and 4.0% below the 2000 level.¹¹ This corresponds to a mass of around 2.5 to 5.0 million missing jobs. Such figures explain clearly the angriness in the lower middle-class, and angriness that was instrumental in Donald Trump’s victory. It is therefore clear that free trade has not had the beneficial consequences predicted by mainstream economic theory on the economies and on the workers who live in these economies.

Is free trade the future of humanity?

It is true that the various subsidies and barriers to competition, which are the essence of protectionist policies, have a very bad press today. On both the right and the liberal left, they are taboo. The former French Minister of Economy and now candidate to the French presidential election, M. Emmanuel Macron, speaks loudly of “freeing” the French economy, which is equivalent to saying that we need more competition. The law attached to his name and that he pushed forward when he was minister was about de-regulating some activities. This was done, but results have so far been less than successful. It should also be pointed out that Mr. Macron distinguished himself by his support for the very contested treaty between the European Union and Canada, the so-called CETA treaty, a treaty that has been adopted very recently by the European parliament¹² after what could only be described as a nasty joke of a debate. The same viewpoints are expressed by the European Commission, which has reacted vigorously to the statements of Donald Trump. There is obviously a point of consensus here. But this point is built on self-proclaimed evidence.

Prescriptive discourses that seek to extend free trade are based on extremely questionable normative bases¹³. The assumption that competition is ever and everywhere beneficial for all is neither theoretically nor in practice grounded. The first demonstration against this belief in competition came from agricultural economics, through the Hog-cycle theory. But as shown by a careful reading of the founding article written by Mordecai Ezekiel in 1938,¹⁴ we are faced with a problem that goes far beyond the phenomena that allowed its initial identification, the fluctuation of agricultural prices. The analysis of the conditions giving rise to the cobweb

⁹ US Congress, *State Median Wages and Unemployment Rates*, prepared by the Joint Economic Committee, table released by the US-JEC (June 2008).

¹⁰ Brewer M., A. Goodman, J. Shaw, and L. Sibieta, *Poverty and Inequality in Britain: 2006*, Institute for Fiscal Studies (London, 2005).

¹¹ <http://cepr.net/publications/briefings/testimony/the-trump-stimulus-and-the-money-obama-left-on-the-table>

¹² On February 15th, 2017.

¹³ Sapir J., “Retour vers le futur : le protectionnisme est-il notre avenir ?” in *L’Economie Politique*, n°31, 3rd Quarter, 2006.

¹⁴ Ezekiel M., “The Cobweb Theorem”, in *Quarterly Journal of Economics*, vol. LII, n°1, 1937-1938, pp. 255-280.

mechanism shows a major flaw in the theory of competitive equilibrium. This analysis contains a radical criticism of the normative role accorded to so-called “pure and perfect” competition. It leads to restoring legitimacy to measures restricting the exercise of competition, whether subsidies or limits on entry into certain markets through the presence of quotas or customs duties. It is not without reason that the compilers of an extremely important work on the theory of economic cycles introduced Ezekiel's article into the collection of texts they edited.¹⁵

Indeed, the term “cobweb” was proposed by Nicholas Kaldor. It should be emphasized that Kaldor was thinking that it was necessary and even mandatory to extract the dynamics of the cobweb from its unique agricultural environment, since we are faced with a general problem affecting the theory of competitive equilibrium as soon as one is in presence of a situation where “... the adjustments are completely discontinuous”.¹⁶ The late Wassili Leontief made quite a similar reflection at the same time. Leontief demonstrated the impossibility of determining a spontaneous mechanism of price and production equilibrium by “pure” competition as soon as supply and demand curves did not correspond precisely to the specifications of the Leon Walras model¹⁷. Equilibrium then appears as a special case and not as a general case, which was confirmed by more recent work by Sonnensheim and Mantel.¹⁸

Moreover, if the objective is to avoid or to limit fluctuations, because these can have short- and long-term negative effects on both producers and applicants (in particular for the investment process),¹⁹ the conclusion that can be drawn is that measures suspending competition such as subsidies, quotas or customs duties become useful and legitimate. Gilbert Abraham-Frois and Edmond Berrebi have shown that the introduction of realistic clauses into reasoning (for example, by accepting that the economic agent has a choice between not two but three options) leads to the generalization of situations of instability as long as competition is maintained.²⁰ Yet while theoretical work since the early 1970s confirms and extends Ezekiel's conclusions about a radical critique of the normative scope of the competitive equilibrium model, one tends to forget the general lesson of his work.

Donald Trump's twitter diplomacy

Donald Trump's recent statements, as well as pressures he exerted on large industrial groups with twitter messages, though they may seem somewhat exotic, have revived the question of modern forms of protectionism. In fact, this debate has already taken place. In the 1930s, as

¹⁵ *Readings in Business Cycle Theory - selected by a committee of THE AMERICAN ECONOMIC ASSOCIATION*, Londres, George Allen and Unwin, 1950, pp. 422-442.

¹⁶ N. Kaldor, “A Classificatory Note on the Determinateness of Equilibrium” in *Review of Economic Studies*, Vol. 1, février 1934.

¹⁷ W. Leontief, “Verzögerte Angebotsanpassung und Partielles Gleichgewicht” in *Zeitschrift für Nationalökonomie*, Vienne, Vol. IV, n°5, 1934.

¹⁸ Sonnensheim H., “Do Walras Identity and Continuity Characterize the class of Excess Demand Functions?” in *Journal of Economic Theory*, vol. 6, 1973, N°2, pp. 345-354. Mantel R., “On the characterization of Aggregate Excess Demand” in *Journal of Economic Theory*, vol. 7, 1974, N°2, pp. 348-353

¹⁹ Malinvaud, E, “Profitability and investment facing uncertain demand”, *Document de travail de l'INSEE*, n° 8303, Paris, 1983 ; Idem, “Capital productif, incertitudes et profitabilités”, *Document de recherche de l'IME*, Université de Dijon, n°93, 1986.

²⁰ Abraham-Frois G. and E. Berrebi, *Instabilité, Cycles, Chaos*, Paris, Economica, 1999, pp. 3-4. See also, Guerrien B., *La Théorie Néo-Classique. Bilan et perspective du modèle d'équilibre général*, Economica, Paris, 1989.

a result of the great economic crisis, a number of economists shifted from traditional “free trade” positions to a more protectionist one. John Maynard Keynes was one of those, and certainly the one who exerted the most considerable influence. The text of J.M. Keynes on the necessity of national self-sufficiency was published in June 1933 in the *Yale Review*.²¹ It's quite an important paper, as Keynes was in the early 1920s a long-standing supporter of free trade.

Today, as in 1933, the reasons for doubting the value of Free Trade are accumulating. World Bank experts brutally revised downwards their estimates of “gains” from international trade liberalization,²² even though they were computed without any reference to possible costs. A UNCTAD study showed a few years ago that the WTO “Doha Round” could cost developing countries up to \$60 billion when it would bring them only \$16 billion.²³ Far from fostering development, the WTO could well have contributed to global poverty. Even foreign direct investment, long regarded as the miracle solution to development, is now under attack.²⁴ In many countries competition to attract direct foreign investment as clearly negative effects in the social and environmental fields.²⁵ Very clearly, this is not taken into account in Donald Trump's “America First” logic and was not even present in his reasoning. But its overall consequences for the protection of the environment could prove to be very positive indeed, which, it must be emphasized, would be an amusing paradox.

How has free trade been imposed on people's minds?

The opening of global trade since the 1970s and 1980s had notable effects all across the world.²⁶ Publications, including those of Dollar in 1992,²⁷ Ben-David in 1993,²⁸ Sachs and Warner in 1995,²⁹ and Edwards in 1998,³⁰ have sought to link international trade and growth. These years were marked by extremely important changes. There were two major phenomena: the end of Eastern Europe, in the sense of the Council of Mutual Economic Aid (CMEA), and the end of the USSR. In both cases, it was found that the trade flows as recorded have grown strongly. But the mere passage from what was an “internal trade” to an “international trade” resulted in a sharp rise in the latter. Part of the growth in world trade can

²¹ John Maynard Keynes, “National Self-Sufficiency,” *The Yale Review*, Vol. 22, no. 4 (June 1933), pp. 755-769.

²² For a precise analysis: Ackerman F., *The Shrinking Gains from Trade: A Critical Assessment of Doha Round Projections*, Global Development and Environment Institute, Tufts University, WP n° 05-01. See also “Doha Round and Developing Countries: Will the Doha deal do more harm than good” *RIS Policy Brief*, n°22, April 2006, New Delhi.

²³ S. Fernandez de Cordoba and D. Vanzetti, “Now What? Searching for a solution to the WTO Industrial Tariffs Negotiations”, *Coping with Trade Reform*, CNUCED, Genève, 2005. See table 11.

²⁴ T.H. Moran, *Foreign Direct Investment and Development, The New Policy Agenda for Developing Countries and Economics in Transition*, Institute for International Economics, Washington D.C., 1998.

²⁵ Oman, C., *Policy Competition for Foreign Direct Investment*, OCDE, Centre du Développement, Paris, 2000. See also, L. Zarsky, “Stuck in the Mud? Nation-States, Globalization and the Environment” in K.P. Gallagher et J. Wierksman (edits.) *International Trade and Sustainable development*, Earthscan, Londres, 2002, pp. 19-44.

²⁶ Sapir J., “Le vrai sens du terme. Le libre-échange ou la mise en concurrence entre les Nations” in D. Colle (dir), *D'un protectionnisme l'autre. La fin de la mondialisation ?*, Paris, PUF, “Major”, 2009.

²⁷ Dollar D., “Outward-Oriented Developeng Economies Really Do Grow More Rapidly: Evidence From 95 LDC, 1976-1985”, *Economic Development and Cultural Change*, 1992, p. 523-554.

²⁸ Ben-David D., “Equalizing Exchange: Trade Liberalization and Income Convergence”, *Quarterly Journal of Economics*, vol. 108, n° 3, 1993.

²⁹ Sachs J., A. Warner, “Economic Reform and The Process of Global Integration”, *Brookings Paper on Economic Activity*, n° 1, 1995, p. 1-118.

³⁰ S. Edwards, “Opennes, Productivity and Growth: What We Do Really Know?”, *Economic Journal*, vol. 108, mars 1998, p. 383-398.

thus be attributed to a “revelation” effect of trade occurring within other statistical frameworks and not to an actual “creation” of trade. Specialists, the same who intone the credo of globalization, only very rarely mention this problem.

A second cause is subtler but no less important. The increase in international trade flows has been linked to the evolution of these economies during the early years of their transition. In the case of the USSR, for example, a large part of the production of aluminum and steel did not find markets within the economy, due to the decline in manufacturing activity. The export of this surplus was immediate, whether it was legal or illegal. Similarly, there has been a phenomenon of substitution of imported products for local production, which has been favored by the sharp exchange rate developments. In this respect, the extremely high figures of international trade in 1994–1997 seem to have been the product of a statistical illusion. It is these figures, recorded over four years that have largely conditioned our vision of growth as linked to international trade. This shows the need to look again to the issue. Were not mainstream economist victims of the old mercantilist fallacy?

Holding the free trade orthodoxy at bay

Various attempts have been made to find a positive correlation between trade and growth. In general, the tests performed give results that are at least very ambiguous. It can be deduced that for some countries openness has had positive results, but not for others. Economic success depends more on the quality of the macroeconomic measures than on the openness.³¹ Indeed, countries that have associated protectionist policies with good macroeconomic policies are experiencing growth rates that are much higher than those of the more open countries, which invalidates the primacy of openness.³² This brings us back to the problem of development, which turns out to be far more complex than what the proponents of generalized free trade are saying. The work of Alice Amsden,³³ Robert Wade³⁴ and also those regrouped by Helleiner³⁵ show that in the case of developing countries the choice of protectionism, combined with genuine national policies of development and industrialization³⁶ have paid off. Growth rates were far above those of countries that did not made the same choice. Dani Rodrik emphasized the fact that the fastest growing Asian countries had systematically violated the rules of globalization, established and codified by the World Bank and the IMF.³⁷

³¹ See Ben-David D., “Equalizing Exchange: Trade Liberalization and Income Convergence”, *op. cit.*

³² See H.-J. Chang, “The Economic Theory of the Developmental State” in M. Woo-Cumings (dir.), *The Developmental State*, Ithaca, Cornell University Press, 1999 ; *Kicking away the Ladder: Policies and Institutions for Development in Historical Perspective*, Londres, Anthem Press, 2002.

³³ Voir H.-J. Chang, “The Economic Theory of the Developmental State” in M. Woo-Cumings (dir.), *The Developmental State*, Ithaca, Cornell University Press, 1999 ; *Kicking away the Ladder: Policies and Institutions for Development in Historical Perspective*, Londres, Anthem Press, 2002.

³⁴ R. Wade, *Governing the Market*, Princeton (N. J.), Princeton University Press, 1990.

³⁵ G. K. Helleiner (dir.), *Trade Policy and Industrialization in Turbulent Times*, Londres, Routledge, 1994.

³⁶ Voir C.-C. Lai, “Development Strategies and Growth with Equality. Re-evaluation of Taiwan’s Experience”, *Rivista Internazionale de Scienze Economiche e Commerciali*, vol. 36, n° 2, 1989, p. 177-191.

³⁷ D. Rodrik, “What Produces Economic Success?” in R. French-Davis (dir.), *Economic Growth with Equity: Challenges for Latin America*, Londres, Palgrave Macmillan, 2007. See also by the same author, “After Neoliberalism, What? ”, *Project Syndicate*, 2002

<http://www.project-syndicate.org/commentary/rodrik7>

This brings us back to the question of national policies and the problems of the developing state that have re-emerged in the debate over the last few years.³⁸ This issue is really at the heart of the industrial revival of Asia. In fact, it is these national policies that are the real critical variables for growth and development, not the existence or otherwise of measures to liberalize international trade. But to admit this is to reconsider the role of the State in economic policies and the role of nationalism as an ideology associated with development. Here one touches on powerful taboos of mainstream thought in economics as well as in politics. It looks like free trade ideologues have been moved by their horror of the State and played games with theory, completely disregarding historical experience. And, to their horror, now the developmental State theory could well be politically vindicated by changes President Trump is introducing. This is not to say that Donald Trump is a supporter of the developmental State. He probably even ignores the term and the history of the phenomenon. But by challenging the free trade orthodoxy, he opens a new window of opportunity for policies aiming at creating strong developmental states.

A return to reason

It is mainstream wisdom that over the past three decades, international trade has largely driven economic development. This thesis has been popularized by some economists, but on closer inspection appears false. In 2008 and 2009, international trade declined in proportion to the decline in production in the major industrialized countries. Trade, therefore, does not create value by itself, an old error of mercantilists that reappears in the form of the belief in growth driven only by trade. On the contrary, growth in the main countries draws trade. It is therefore necessary to ask whether we have not been faced with an error, at least of an illusion, due to statistics. Indeed, the phenomenon of growth, whether that of gross domestic product (GDP) or that of international trade, could very well be overestimated for various reasons. The possibility of a measurement error may call into question the agreed idea of a direct and mechanical link between the development of international trade and global growth. This requires rethinking the causal links between growth and trade. From that point on, it is the entire ideology that has surrounded the globalization that will be called into question.

The rupture of this cognitive veil then makes it possible to ask other questions. To what extent is globalization responsible for the destruction of the natural environment, which has been accelerating since the late 1980s? This destruction is not simply linked to the multiplication of long-distance transport, to the competition between the West European worker and the Asian worker over the very different social systems that govern their work. However, it is now known that this has had profoundly destabilizing effects on the internal distribution of income. Companies have been relieved of the constraint that, in a relatively closed economy, their wages (which are therefore costs to them) are also decisive for their markets. This emancipation stems from the submission of local economic logics to global ones which can result in significant ecological damage.

The Trans-Pacific Partnership (TPP) agreement, a treaty cancelled by President Trump, is an obvious example of the common misrepresentation of trade agreements in the mainstream media. A document coming from the Peterson Institute was putting gains for all participants at

³⁸ Voir T. Mkandawire, "Thinking About Developmental States in Africa", *Cambridge Journal of Economics*, vol. 25, n° 2, 2001, p. 289-313; B. Fine, "The Developmental State is Dead. Long Live Social Capital?", *Development and Change*, vol. 30, n° 1, 1999, p. 1-19.

a very high level.³⁹ The International Trade Commission criticized figures coming from the Peterson Institute.⁴⁰ While the Peterson Institute analysis projected an increase in national income of 0.5% by 2030, which is not really spectacular, the ITC report projected an increase that actually was less than half this size. The ITC report was giving a gain of 0.23% by 2032. To understand what it means we have to understand an increment to the annual growth rate of 0.015%. The ITC projection implies then that *with the TPP* in operation the economy would have a projected gain amounting to roughly one and a half month's GDP. It means then that growth on January 1, 2032 would be at the same level it would be in February 15th 2032 *without* the TPP! But the ITC also was using a CGE model for its computation in spite of considerable criticism against this kind of model.⁴¹ Actually, in other cases, ITC projections have been found seriously overstating growth and seriously off the mark. This has been found in the ITC evaluation of the US-Korea treaty (or KORUS). The ITC evaluation failed also to pick-up the large increase in the trade deficit and failed also to identify what could be the gaining and the losing sectors. The ITC model explicitly ruled out the various ways in which a trade agreement could lead to negative economic outcomes. This is why it is wrong to view the projections from the ITC as a comprehensive or operational assessment of the impact of the TPP. The excluded factors noted above would be difficult to model and the ITC did not try to introduce them into its model.⁴² The actual history of divergence between ITC projections of the impact of trade agreements and actual outcomes suggests then that the impact of factors not included in the model is substantially larger than the factors that ITC has incorporated into its analysis.⁴³ A more sober and realistic evaluation would show that the TPP short and long-term influence would be unfavorable to the US economy and generally speaking to all countries involved in the TPP.

Hence, Donald Trump cancellation of the agreement probably salvaged workers in related countries, even if it was not the main driver for his action.

Economy and politics

In fact, globalization is synonymous with growth only when it can be based on a national development project, often articulated to a nationalist ideology. Merchant globalization only yields results if one does not play its game but while others do. The case of China is exemplary here, because it is through the combination of a National policy and the openness of development over the last 25 years. But even in this case, the rise of social inequalities and ecological destruction makes the continuation of this model problematic. This is particularly

³⁹ Petri, Peter and Michael Plummer. 2016. "The Economic Effects of the Trans-Pacific Partnership: New Estimates." Washington, D.C.: Peterson Institute for International Economics. Working Paper Series WP16-2. <https://ideas.repec.org/p/ie/wpaper/wp16-2.html>

⁴⁰ ITC. 2016. "Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors." Publication Number 4607. Washington, D.C.: United States International Trade Commission, <https://www.usitc.gov/publications/332/pub4607.pdf>

⁴¹ See Ackerman, K. Gallagher, "Computable Abstraction: General Equilibrium Models of Trade and Environment" in F. Ackerman, A. Nadal (dir.), *The Flawed Foundations of General Equilibrium: Critical Essays on Economic Theory*, New York/Londres, Routledge, 2004, p. 168-180. For a more general assessment of general equilibrium models, see J. Sapir, *Les Trous noirs de la science économique*, Paris, Albin Michel, 2000, chap. I.

⁴² This was however done by researchers from Tufts University : Capaldo, Jeronim and Alex Izurieta. 2016. "Trading Down: Unemployment, Inequality and Other Risks of the Trans-Pacific Partnership Agreement." Medford, MA: Tufts Global Development and Environment Institute. *Working Paper* No. 16-01. <http://www.ase.tufts.edu/gdae/Pubs/wp/16-01Capaldo-IzurietaTPP.pdf>

⁴³ Baker D., *The International Trade Commission's Assessment of the Trans-Pacific Partnership : Main Findings and Implications*, CEPR, November 2016.

true in the Far East, with other examples like Taiwan and Korea, but can also be seen in Russia since 1999. Actually, the very process of emergence of a multi-polar world is rooted in the birth or re-birth of powerful developmental states that are clashing with equally powerful multinational corporations. Trump's economic policy is an attempt, even if sometimes clumsy and plagued by inconsistencies, to adapt to this new situation.

Thus, far from leading to the overcoming of the nation, globalization is proving to be the new framework for the expression of national policies that generate either domination and destruction of national cadres for the benefit of stronger nations or phenomenal reactions and national development.⁴⁴

Basically, the idea that we would have from the end of the "short 20th century"⁴⁵ regained a tendency to integration by trade thus proves to be a myth. This was clearly shown by Paul Bairoch and Richard Kozul-Wright in the systematic study of these flows, which was carried out in 1996 for the United Nations Conference on Trade and Development (UNCTAD).⁴⁶ There has never been a "golden age" of globalization, which would have ended with World War I and which would have been followed by a long period of decline, before experiencing a revival since the 1970s. It is indeed the whole idea of a march towards the "global village" which is deeply questioned. This debate has continued in the recent period and its results have been the same. Let us keep, however, for the moment, the image that is provided to us by Rodrik and Rodriguez.⁴⁷ The push towards greater openness was not favorable to as many people as possible.⁴⁸ It is then of the utmost importance to debunk the fallacy of free trade working for the poor. It never did and never will.

Requiem for free trade?

Economically, free trade is not the best solution and carries risks of crises and increases in inequalities that are considerable. It puts different territories in competition, not on the basis of the human activities deployed in them, but on that of social and fiscal choices themselves very debatable.⁴⁹ Trade liberalization has not benefited the poorest countries, as shown by the most recent studies. A comparison of benefits and costs, particularly with regard to the collapse of public investment capacity in health and education following the collapse of fiscal resources, suggests that the balance is negative.

Politically, free trade is dangerous. It is an attack on democracy and the freedom to choose one's social and economic institutions. By promoting the weakening of state structures, it encourages the rise of communitarianism and cross-border fanaticism, such as Jihadism. Far from being a promise of peace, economic internationalism actually leads us to disaster and to

⁴⁴ See, Sapir J., "Retour vers le futur : le protectionnisme est-il notre avenir?", *L'Économie politique*, n° 31, 3^e trimestre, 2006.

⁴⁵ Sapir J., *Le Nouveau XXI^e Siècle*, Seuil, 2008.

⁴⁶ Bairoch P., R. Kozul-Wright, "Globalization Myths: Some Historical Reflections on Integration, Industrialization and Growth in the World Economy", *Discussion Paper*, n° 113, Genève, UNCTAD-OSG, mars 1996.

⁴⁷ F. Rodriguez, D. Rodrik, "Trade Policy and Economic Growth: A Skeptics Guide to the Cross-National Evidence", in B. Bernanke, K. Rogoff (dir.), *NBER Macroeconomics. Annual 2000*, Cambridge (MA), MIT Press, 2001.

⁴⁸ Voir J. Sapir, "Libre-échange, croissance et développement : quelques mythes de l'économie vulgaire" in *Revue du Mauss*, n°30, 2^e semestre, La Découverte, 2007, p. 151-171.

⁴⁹ Sapir J., voir Ch. 8 et Ch. 9 de D. Colle (edit.), *D'un protectionnisme l'autre – La fin de la mondialisation ?*, Coll. Major, Presses Universitaires de France, Paris, Septembre 2009.

war. The destruction of nation-states in Middle-East, like Iraq, or the attempt to do the same in Syria, whatever criticisms can be made of these states and their leaders (and they are many) led only to a bloody chaos.

Morally, free trade is clearly indefensible. It has no other shores than that of the reduction of all social life to commodity. It establishes as a moral value the social obscenity of the new globalized “class of leisure”.⁵⁰ The future is thus protectionism. But it is to be understood that protectionism is not autarky. It will first impose itself as a means of avoiding the social and ecological dumping of certain countries as we can see with policies developed inside the EU. It will then take the form of a coherent industrial policy in which the aim will be to stimulate the development of sectors with a strategic role in a development project. This will lead to the redefinition of a global economic policy that may include the regulation of capital flows, in order to rediscover the instruments of economic, political and social sovereignty. The forms of the policy of the future remain to be found and this is a general challenge for all populist leaders who come to power in the world. But its general meaning, however, is not very doubtful.

As we said before, it is an interesting, but rather paradoxical point, that free trade is challenged by Trump who is considered the most pro-business and also the most indifferent to ecological concerns of any President for many years. Beyond the questionable political style of Donald Trump, and its questionable policies too, let us admit that his project is part of the great reversal that I had predicted a few years ago.⁵¹ We do not yet know whether Donald Trump will succeed in articulating a genuine policy of re-industrialising his country, a policy that would benefit the largest number of people. We can have serious doubts on that point. At the same time, it is quite obvious that part of the hate he is inspiring right now is coming from his opposition to the “globalist” and free-trade orthodoxy. His administration is already under siege. And the violence of his opponents tells us a lot about what is at stake. But its policy takes into account, unlike what can be seen in the European Union that, for now, the era of free trade is over.

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SUGGESTED CITATION:

Jacques Sapir, “President Trump and free trade”, *real-world economics review*, issue no. 79, 30 March 2017, pp. 64-73, <http://www.paecon.net/PAEReview/issue79/Sapir79.pdf>

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⁵⁰ See A. Wolfe, “Introduction” in T. Veblen, *The Theory of the Leisure Class*, The Modern Library, New York, 2001 [1899].

⁵¹ Sapir J., *La Démondialisation*, Le Seuil, Paris, 2011.