TRUMP, FREE TRADE AND GLOBALISATION: AN ALTERNATIVE?
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First, a little personal history to illustrate Britain’s long and deep involvement with globalisation.

My family was forced to leave apartheid South Africa for exile in Britain in 1966. It took us two weeks to sail the 6000 miles from Cape Town to Southampton, before settling in London. A few years later aged 19 I found myself leader of a highly controversial campaign of direct action against apartheid rugby and cricket tours, labelled in Britain ‘Hain the Pain’ and in South Africa ‘Public Enemy Number One’. Fortunately things are different today and some of my best friends now serenade me with risqué rugby songs and I’m welcomed as an official guest by Springbok teams I helped stop touring Britain for a quarter of a century.

After working as a trade union national officer, for the past 26 years, my primary place of work has been in Parliament at the Palace of Westminster beside the river Thames in London. Visitors to London often take a boat ride from Westminster downstream to Greenwich, home of Greenwich Mean Time. Nearby they see a symbol of the first age of globalisation, the magnificent 19th century sailing ship Cutty Sark. In the 1870s she brought tea from Shanghai to London via the Cape of Good Hope, carrying mainly manufactured goods on the return leg. But Britain now ships far more manufactured products from China than she does to it. Even only twenty years ago China was a minor trading partner in world markets. Today she is a mega-trader, having overtaken the US as the world’s leading supplier of merchandise exports. By 2030 China’s share of such exports is forecast to be double that of the US, four times that of Germany and ten times that of the UK.

The Cutty Sark was quickly put out of business in the tea trade by technological change – the Suez Canal and steam ships. Trade has often been blamed for pain that is more due to technological change. And that is where today’s questions about globalisation begin.

Has free trade and globalisation failed too many people? Is Donald Trump’s ascendancy to the US Presidency part of a wider populist revolt against both globalisation and free trade?

Apart from his shocking ban on Muslims, in recent weeks Trump has repealed laws that prevented coal companies from polluting freshwater streams and stopped US corporations secretly paying foreign governments for mineral extraction rights. Where activists were campaigning for new or better laws to regulate such practices, now they are forced to defend the old ones that were doing some good but are under assault.

Similarly where many on the left like me criticised post-Second World War international institutions like the UN, NATO and the European Union as being too US-dominated and too beneficial to the rich and powerful, we have now been forced to defend them against Trump and the far right who wish to tear them up.

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1 House of Commons Library, Briefing Paper Number 7379, Statistics on UK Trade with China, 12 November 2015.
By aligning itself with Trump and leaving the EU, the British government is threatening its future viability and survival, especially if Trump fan Marine Le Pen wins the Presidential election in May.

Launching her campaign last week Marine Le Pen promised to put France first by freeing it from what she labelled the ‘tyrannies’ of globalisation, Islamic fundamentalism and the European Union. In a revealing insight into her hard right ideology which has attracted former working class Communist and Socialist Party voters, she said: ‘The divide is no longer between the left and the right, but between the patriots and the globalists.’ She added: ‘Financial globalisation and Islamist globalisation are helping each other out. Those two ideologies aim to bring France to its knees.’

Yet, for all its faults, the EU has been indispensable and invaluable in rejecting Europe’s history of bloody conflict over the centuries. Destroying it could unleash dangerously destructive forces now impacting across the world.

At least some powerful global leaders have acknowledged their culpability in opening the door to such malevolent and reactionary forces.

Last month the head of the International Monetary Fund, Christine Lagarde called for urgent action to tackle a ‘middle-class crisis’ hitting working people as she warned that inequality, distrust and a lack of hope were fuelling growing populism. Lagarde conceded there was growing inequality evident from a 2017 Oxfam report showing that eight billionaires owned the same amount of wealth as the poorest half of the world’s population – 3.6 billion people.

In December, Mark Carney, Governor of the Bank of England, had issued a rallying cry to tackle the causes of a growing sense of ‘isolation and detachment’ among people who feel left behind by globalisation, global trade and technology. Those forces had favoured the ‘superstar and the lucky’, he said. ‘But what of the frustrated and frightened? The fundamental challenge is that, alongside its great benefits, every technological revolution mercilessly destroys jobs and livelihoods – and therefore identities – well before new ones emerge,’ he said.

Carney noted the rise in living standards around the world in recent decades and said technological progress had lifted more than 1 billion people out of poverty. But he recognised that many citizens in advanced economies were ‘facing heightened uncertainty, lamenting a loss of control and losing trust in the system.....Rather than a new golden era, globalisation is associated with low wages, insecure employment, stateless corporations and striking inequalities.’

The financial crisis had exposed how banks had been working in a ‘heads-I-win-tails-you-lose bubble’.

What an admission from these two high priests of financial capitalism.

In direct response President Donald Trump’s election campaign conjured vivid ideas of a western Shangri-La for working class white American males, complete with shotguns, stars and stripes and Stepford wives. He held out the prospect of returning America to the good old days: coal mines would be profitable in Pennsylvania, steel plants would pay their way in Ohio, and no manufacturing jobs would be in jeopardy anywhere in America’s rust belt. Above all Trump appealed to Americans who felt left behind by globalisation and technological change.

In short, globalisation has been good for many but also grim for far too many. In America and Britain those who have lost out have tended to be clustered in towns which have seen their economic vitality vanish and their self-respect suffer. Coal fields, ship yards, steel towns, clothing & textile centres and heavy engineering plants have been hit hard.

But in the advanced economies of the western world it is more austerity and slow growth, than globalisation, which has squeezed living standards since the global financial crisis.

Which brings me to a painful truth: Donald Trump’s victory has come as an overdue wake-up call to both conventional politics and orthodox economics. It has injected urgency into pleas for help from communities left behind by globalisation and free trade agreements. But although they might be helped by his plans for massive public infrastructure investment, his plans to deregulate banking and cut corporation taxes will mainly help the rich and powerful.
Back to those day trippers to London’s Greenwich. A short walk uphill takes them to the Royal Observatory where they can stand astride the Prime Meridian, zero degrees longitude, which marks the divide between the eastern and western hemispheres. Inside the observatory they can admire John Harrison’s timekeepers – now called marine chronometers – that solved the problem of longitude in the 1760s. Harrison revolutionised ocean navigation and transformed international trade by reducing the risk of journeys across the sea. Solving longitude was a key contribution to globalisation both in its first phase, the boom in global trade and in cross-border flows of capital during the late 19th and early 20th centuries, then in its second phase since the Second World War.

World trade as a share of world GDP nearly doubled from 9 per cent in 1870 to 16 per cent by the First World War, before sinking to nearly third (less than six per cent) at the end of the 1930s as protectionist measures made the Great Depression even worse.

After 1945 world trade recovered, helped by cuts in transport costs and reductions in trade barriers brought about by eight rounds of multilateral trade negotiations, regaining 1914 levels by the 1970s. Since the 1990s global trade in goods and services has risen to unprecedented levels with exports nearly doubling from some 19 per cent of world GDP in the early 1990s to 33 per cent of world GDP today.\(^3\) We now live in what economists call an era of ‘hyperglobalisation’.

World trade grew at a rate of six per cent per year between 1980 and 2008, helped by the end of the Cold War and the reintegration into the world economic system of the countries of soviet Eastern Europe, by China’s re-entry after her post-1978 economic reforms, by India following her reforms in the early 1990s, and by the spread of democracy in parts of Africa and South America. In economist Stephen Roach’s phrase: ‘Market economics has circumnavigated the world.’\(^4\)

Nevertheless from outside the Royal Observatory at Greenwich visitors get a clear view back across the river Thames to Canary Wharf with its international banks, high rise office blocks and expensive luxury flats – London’s answer to Manhattan, the epicentre of support in Britain for the neoliberal ideology that led to the 2008 global financial crisis, and the principal beneficiaries from the multi-multi-billion taxpayer-funded bank bailout. Vast glass towers now stand on the site where the London docks used to employ tens of thousands before they finally closed in 1980.

The shiny modern buildings of Canary Wharf overlook next door working class Poplar in the London borough of Tower Hamlets and its council housing estates. Tower Hamlets is the third most deprived area in Britain and has the highest level of child poverty in London, with over a third of its children living in out-of-work families in 2013.\(^5\)

There in microcosm at Canary Wharf are the two faces of globalisation. New technology and new jobs alongside areas of neglect. Finance dominant with investment banks standing proud only yards away from poverty and food banks. Stratospheric rewards for a few alongside meagre pickings for the many. Like so many others the people of Poplar count among the casualties of globalisation.

Freeing up international trade by cutting import tariffs and removing non-tariff barriers to trade was supposed to boost the global economy, raise real incomes all round and improve living standards across the board.

Globalisation has helped to do some of those things. But the recent gains may have been grossly exaggerated, as American Nobel economist Paul Krugman has demonstrated.\(^6\) Political leaders and economists have oversold the upside potential of globalisation and understated the downside risk.

Initially, in the 1950s and 1960s, the advanced Western economies grew much faster than before World War Two and inequality fell significantly as governments pursued policies of full employment, social welfare and progressive taxation. But since the 1970s not only have real incomes grown at a slower pace but the gains have gone mainly to those at the top of the income

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3 Subramanian and Kessler p5.
5 City of London Corporation secondary research briefing paper Deprivation in London January 2015.
ladder, encouraged by a neoliberal ideology that abandoned full employment, weakened social welfare and opposed redistribution.

The European Union encapsulated what the economics of globalisation were supposed to be about. First it would encourage economic growth throughout the Union by making trade between member states barrier-free – promoting trade by creating a single European market with a common set of rules and free movement of labour, capital, goods and services.

Second it would simultaneously protect citizens of member states from the worst consequences of free trade, like job losses and closures as traditional industries lost out to new ones. This would be achieved by protecting people with new jobs, a social charter of rights like maternity paternity and parental leave, a lifetime training entitlement, protection against age discrimination, rights to information and consultation at work, equal rights in all its aspects, and assured holiday leave.

But although everyone may have benefited from lower priced imports, for many skilled and unskilled manual workers these gains have been wiped out by job losses in industries that cannot compete with their new foreign rivals.

Recent research has challenged the economic consensus about the beneficial impact of trade on working people that prevailed up to the early 2000s. This research explored the ‘China Shock’: the serious adjustment costs caused by China’s reintegration into the world economy. China’s share of world manufacturing exports rose spectacularly by ten times over twenty years, from 1.9 per cent in 1990 to 18.8 per cent in 2013.

Until the 1990s economists tended to find that international trade had only a minor impact on wages and jobs because workers hurt by trade could readily relocate to other regions. The disappearance of US manufacturing jobs was nothing new. It had been happening since the late 1940s and was put down to new technology and higher productivity.

But research suggests that things changed in the age of hyperglobalisation. Local unemployment rates remained high for a decade or more, with the workers displaced by competition from foreign imports suffering long term wage losses. Second, the ultimate net gains from trade were only realised once workers moved across regions from declining to expanding industries, accepting significantly lower pay in the process. Third, offsetting job gains in other industries had yet to materialise. In short globalisation brings pain that is harsh and protracted, not mild and soon gone.

The chickens came home to roost in the recent referendum on UK membership of the European Union and in the US Presidential election. British voters’ decision, a catastrophic one in my view, to leave the EU represented a rejection of globalisation. But behind that failure has been the neoliberal ideology that has dominated the policies of the EU and its member states since the 1970s and ruled out serious redistribution, exacerbated by harsh and completely counter-productive austerity policies.

Economists have traditionally supported free trade between countries since the English economist David Ricardo in 1817 introduced the concept of comparative advantage to explain why countries would find international trade mutually beneficial, and better than trying to meet all their own needs from domestic production.

Ricardo explained that by each specialising in the production of different goods in which they respectively enjoy a comparative advantage two countries can gain from trading with one another. Importing something makes sense if it takes less labour to produce the exports needed to pay for it than it would to produce it yourself. Everyone’s a winner.

But the Ricardo model’s key weakness is that it does not allow for the possibility that foreign trade might affect the distribution of income by causing some sections of society to lose while all the

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8 David Autor, David Dorn and Gordon Hanson op cit.
gains accrue to others. Economist Dani Rodrik argues that the net gains from trade now look rather paltry compared to the redistribution of income from lower to higher earners that it causes.  

Senior financial and business guru Adair Turner has commented: ‘While trade liberalisation from 1950 to 2000 helped drive global growth, the marginal benefits of further liberalization are small.’ Voters are not going to support further globalisation unless radical steps are taken to see that any gains are fairly shared.

Globalisation and Global Inequality

Very recently leading economist Branko Milanovic has presented startling results on the effects of globalisation on the distribution of income across the world. Between 1970 and 1990 real per capita incomes rose at similar rates from the bottom to the top of the world income distribution. But over the period 1988-2008 when ‘hyperglobalisation’ and neoliberalism really took off, the picture changed dramatically. The first big winners were the fifth of the world’s population near the middle of the income distribution. They enjoyed rapid real income growth, reaching nearly 80 per cent at the peak. This represents the rise of the ‘global middle class’ in China and ‘resurgent Asia’ (including India, Thailand, Vietnam and Indonesia).

The second big winners were the top one per cent of the world income distribution – the global elite, mainly in the USA, Western Europe, but also in countries like Japan, China, India, Russia, Brazil, and indeed South Africa.

The big losers were the hundreds of millions who experienced very slow, indeed close to zero, real income growth over 20 years. These are the working class and lower middle class in the rich OECD countries – what former British Labour Party Leader Ed Miliband called ‘the squeezed middle’. Or what economist Diane Coyle has termed the ‘decile of discontent’ on middle and low incomes in developed economies. Milanovic has confirmed this trend became even stronger after the 2008 global financial crisis.

On top of that, where the last technological revolution first wiped out well-paid working class jobs in manufacturing, this one will wipe out well-paid jobs in the service sector, many highly skilled, from lawyers to translators. Low-paid workers in the services – jobs like cleaning, gardening, carers, bar or restaurant staff – will still be needed.

With digitalisation, robotics and artificial intelligence the super-creative minority will be richly rewarded. But there will be a hollowing out of the middle class and an expansion of low-paid insecure jobs at the bottom – sharply exacerbating the inequality trends of recent times.

Most important, the last technological revolution was accompanied by a political consensus which ensured those making the cars, the washing machines and the TV sets could also buy them, because of full employment policies, capital controls, progressive income tax, strong trade unions and decent pensions. Yet today’s fashion for neoliberal, deregulated, low tax markets means these kinds of protection have been, and still are, withering away.

The World Economic Forum, instead of ranking countries by GDP, has created an ‘inclusive development index’. And at the top are countries with higher taxes, generous welfare systems and stronger, more influential trade unions. The top seven are Norway, Luxembourg, Switzerland, Iceland, Denmark, Sweden and the Netherlands. Britain and the US are way back in 21st and 23rd places respectively. And the kind of deregulated free market low tax future that hard Brexit Britain now faces is likely to make this even worse.

A Fresh Approach: A Four Point Programme

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13 Diane Coyle Help the decile of discontent to help themselves Financial Times 13 July 2016.
Globalisation has done plenty of good. Diane Coyle has pointed out that ‘nine-tenths of the world’s inhabitants have seen their incomes rise in the era of technology-enabled globalisation’, though the gains have not been evenly spread among the 90 per cent.14

Christopher Kutarna of the Oxford Martin School has summed up what higher trade and higher incomes in the past two decades have led to: ‘When the Berlin Wall fell, two-fifths of humanity lived in extreme poverty. Now it’s one-eighth. Global illiteracy has dropped from one-half to one-sixth in the same span of time. With a few tragic exceptions, a child born almost anywhere today can expect to grow up healthier, wealthier and smarter than at any other time in history.’15

But globalisation has also helped to turn shipyards into scrapyards, clothing factories into call centres, and car assembly plants into car parks. Where many secure and well paid full time jobs used to exist, too often we now see only a few insecure and poorly paid part time jobs. The gains from free trade have not been shared fairly. Paul Krugman in 2008 concluded that the rise in manufactured imports from developing countries had led to greater inequality in the US and other developed countries. China had made all the difference.16

The days when countries like Britain thought they could go it alone in the world are long gone. We live now in an increasingly interdependent world. One in which international trade, overseas investment, global communications, world-wide travel, large-scale migration, transferred technology and cross border crime are commonplace. One in which we all need partners abroad to help us boost business, create jobs, promote trade, manage migration, protect the environment, tackle terrorism, preserve peace and defend our interests.17

That means escaping the suffocating neoliberal orthodoxy in which government policies have been gripped in recent decades, an ideology favouring market forces wherever possible and tolerating state intervention only where absolutely necessary. We have to revive the role of the state acting on behalf of society to promote the common good. We have to respond to the point argued now for nearly 20 years by economist Dani Rodrik that markets and states are complements not substitutes, that markets expose workers to risk, and that state action is needed to bolster the legitimacy of markets by protecting people from the risks and insecurities that markets bring with them.18

In his new book Guy Standing says it is a myth that the political and economic changes of the 1970s created free markets. Instead, he argues, globalisation has hastened the development of rigged markets dominated by ‘a plutocracy and plutocratic corporations linked to concentrated financial capital that are able to gain increasing amounts of rental income by virtue of their wealth. Meanwhile wages are stagnating.’19

I would pursue four priorities. First, recognise that trade protectionism only made the Great Depression of the 1930s worse. So press for closer cooperation across the globe, but either put tackling climate change ahead of signing further trade agreements or, (better still) build climate change commitments into those agreements because the likely gains from further globalisation aren’t that great. Some like economist Thomas Piketty have also argued for common corporation tax rates in trade agreements to prevent a race to the bottom from depleting the tax base, though nation state resistance to outsiders determining domestic tax rates will make that difficult to achieve.

Second, instead of Trump’s bonfire of bank regulations, reform the financial system to reduce the risk of a second global credit crunch and consequential threat of complete economic

14 Diane Coyle, op cit.
15 Christopher Kutarna There’s never been a better time to be alive. So why the globalisation backlash? World Economic Forum 8 July 2016.
17 Trade Unionists for Europe A Trade Union Agenda for Europe, 1999.
18 Dani Rodrik op cit p.19. See also discussion by Kevin O’Rourke in Brexit: This backlash Has Been a Long Time Coming, VoxEU 28 August 2016.
collapse like in 2008. The financial system remains a powder keg that could explode again unless governments get a tight regulatory grip, including on the shadow banking sector and hedge funds.  

Third, abandon the austerity policies that have been holding back economic growth in the UK and the Eurozone since the G20 Toronto Declaration in July 2010. In Britain’s case break out of the Brexit blues by giving the economy a substantial fiscal boost through an extra £30 billion of public investment for each of the next two years, focused on housing, infrastructure, low carbon investment, education and skills. 

Fourth, respond to the clear evidence that regional labour markets like in Wales and the north of England adjust agonisingly slowly to shocks by radically strengthening the help provided to those hurt by globalisation. That means investing heavily, first in safety net policies, such as through unemployment benefits and partial wage insurance for workers displaced into lower-paying jobs. Indeed the time may well have come to pay a basic income to all citizens, in work or not. Second provide a springboard to new jobs with job counselling, help with retraining and relocation, and wage subsidies for employers hiring displaced workers. Third, boost regional infrastructure spending to help attract new jobs, expand health investment and provide more affordable housing. 

In Scandinavian countries, strong social safety nets do not undermine their labour markets or their productivity performance. Quite the opposite. For instance they free up workers to take jobs that would otherwise have been beyond their reach. Free education for all and skills training for any age, social security for the unemployed, and systems of care for children, the elderly and vulnerable members of society add up to what the Scandinavians call a ‘flexicurity’-based labour market. This is their key defence against the worst effects of globalisation and open markets. 

There is plenty of potential for government intervention to help older industrial centres to thrive as hotbeds of innovation and advanced manufacturing. Bruce Katz and Mark Muro have named four that could be turned ‘from rustbelts into brainbelts’: Dresden in eastern Germany, home to a range of semiconductor manufacturers; Eindhoven in the Netherlands where a former Phillips Electronics facility has been turned into a technology hub; Akron in Ohio which has evolved from tire-making to advanced polymers; and Albany in New York state which is now at the cutting edge of nanotechnology. They each combine deep industry expertise, world class research centres, a commitment to collaboration across disciplines and sectors, and a sense of urgency. Nothing that South Africa should not aspire to. 

Globalisation need not hang like the sword of Damocles over UK manufacturing. The lesson of Germany is plain for all to see. Manufacturing accounts for 21 percent of German GDP but only 11 percent in the UK. Germany is the world’s third biggest exporter after China and the US, selling three times as much abroad as Britain. Compared with Britain, Germany has much bigger public investment in education and training and therefore a more skilled workforce capable of running the high-tech production processes and flexible manufacturing systems on which top quality products and demanding standards of customer service depend. 

We cannot afford to turn our back on globalisation. But unless we find ways to share the gains fairly and ensure that the inevitable casualties are supported into taking new opportunities, people, as they did over Brexit, Trump and maybe Le Pen, will declare a plague on all your houses and walk away from free trade, simultaneously scapegoating sections of our communities, currently Muslims. 

Our aim must be to give citizens the greater ‘control’ they have demanded as they turn their backs on the political class, too often attracted by right wing populist demagogues. Greater control – not protectionism which would damage prosperity and feed xenophobia – but by ensuring government invests in new technology and retraining to replace old industrial jobs; ensures that

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22 Bruce Katz and Mark Muro From rustbelts to the ‘smartest places on earth’, Brookings Brief 4 April 2016.
immigration is not only focused upon high value added or vacant jobs which cannot be filled domestically, and crucially also does not replace domestic jobs by undercutting wages and conditions.

Above all such greater ‘control’ means overturning the neoliberal obsession with austerity and shrinking the state.

But surely both Donald Trump and the ardent Brexit leaders are flatly opposed to that? Trump has already vetoed the Trans Pacific trade pact and plans to renegotiate the North American Free Trade Agreement, putting protectionism at the heart of his policy. This could collapse into a trade policy free for all, meaning trade wars feeding off protection and retaliation – precisely the policies of the 1930s when trade barriers made recovery from the Great Depression more difficult.

Yet his blunt warning to car makers that he will impose charges and penalties if they shift plants out of the country is both attractive and awkward for people of the left. Although maybe those car makers who acquiesce will be replacing their workers with robots anyway.

Words from the venture capitalist Bill Janeway strike home to someone like me in the later stage of his political career. ‘Today we remain suspended in the paradox of politics. Securing financial stability and regenerating economic prosperity requires market interventions by governments deemed untrustworthy by broad segments of the populations they represent and are meant to serve.’

Reconciling people who are poles apart and bringing them together behind radical solutions is what my politics have always been about and what we must now do.

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