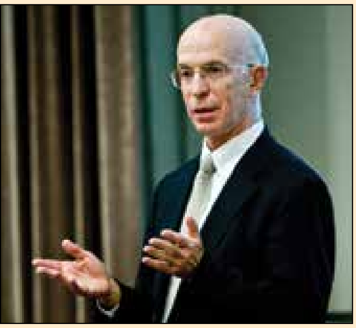

Upside, Downside

U.S. policy should carry the ball for globalization by turning trade's gross losers into net winners

Alan S. Blinder

ARE you for or against globalization? It's a silly question, really, rather like asking whether you favor or oppose the daily sunrise. It will happen anyway. Your choice is whether to make the most of it, enjoying the sunshine and greenery, or emphasize the downsides, like sunburn and poison ivy. Or you can create your own fantasy by shutting yourself indoors, pulling the curtains, and pretending the sun didn't rise at all.

Some people seem to favor the last option. But nation-states don't have that choice. Historical and technological forces have been advancing globalization for decades—ever since the Great Depression and World War II temporarily but decisively reversed it. And these forces will continue, meaning that each country must decide how to maximize the upside of globalization while minimizing the downside—for there are both.

This, too, is nothing new. Economists since David Ricardo in the early 19th century have understood that international trade—perhaps the quintessence of globalization—creates winners and losers. And those who lose have been fighting globalization since before it had a name. They still are, but it's well past time that economists—much as we love the gains from trade—pay more attention to their complaints. They may be special pleaders, but losing your job is something special to plead about. They may want to stack the deck in their own favor, but if they don't, technology and trade will stack it against them.

Increasingly, the world seems to be split into two groups: those with the talent, proclivity, and perhaps plain luck to reap the benefits of globalization and those left behind. Bridging—really, mitigating—that gap may be the economic problem of our age.

Economists emphasize that trade is a positive-sum game: the winners' gains exceed the losers' losses. That's basically why we all favor freer trade. Net gains to the nation (indeed, to all nations) permit compensation: transfers from winners to losers. Arithmetic makes it possible, *in principle*, for everyone to come out a net winner. But that doesn't happen *in practice*. Transfers and other cushions are rarely large enough to turn trade's gross losers into net winners—even in western European countries with generous social safety nets. The United States barely tries.

Insufficient compensation has two main consequences. First, trade openings can exacerbate income inequality. Support for free trade runs a lot stronger among those with high skills and incomes than among lower-skilled workers. That's no accident: the overprivileged generally benefit from globalization more than the underprivileged. Second, the losers from, say, trade agreements often oppose them because they don't expect to reap the gains.

Thus, there is both a fairness case (less inequality) and a political economy case (more trade) for offering more help to trade's losers. How? Precise answers differ across countries. Nations that already do much to help their workers cope with economic change—for example, with thick social safety nets, active labor market policies, extensive and effective job retraining programs, and high-pressure labor markets—may not need programs explicitly designed to help the victims of *trade*. But other countries may.

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The United States falls squarely in the latter category. The purpose of the Trade Adjustment Assistance Program (TAA), introduced in 1962, is to provide a special safety net for those who lose their jobs to trade. But it reaches very few displaced workers. It is also supposed to help people get back to work—for example, through retraining and moving assistance. But TAA seems to have favored *assistance* over *adjustment*. Other ideas, like wage insurance, have been discussed for decades—but not adopted.

The fierce recent opposition to globalization in the United States, evident in the past presidential campaign, is both ironic and important. It is important because the United States remains the world's leader in almost every respect. If it doesn't carry the ball for globalization, who will? It is ironic because the United States seems particularly well positioned to reap huge gains from globalization. Who else can provide the world's reserve currency? What other nation can match U.S. market flexibility, domestic competition, economic creativity, entrepreneurial zeal, and propensity for plain hard work?

These attributes and others make the United States an almost-sure winner from globalization. Better mechanisms to cushion the blows to the losers would help the whole country reap those gains. ■

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