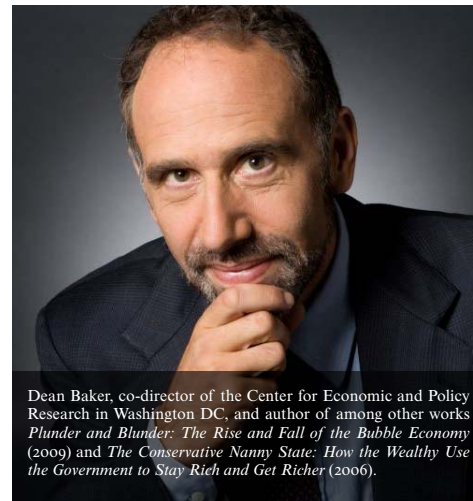


TRADE WILL DEVELOP ALONG DIFFERENT PATHS

We are not witnessing the end of free trade, says Dean Baker. But the USA will be a far less significant trade partner and the exporting countries will look to regional markets instead.



Dean Baker, co-director of the Center for Economic and Policy Research in Washington DC, and author of among other works *Plunder and Blunder: The Rise and Fall of the Bubble Economy* (2009) and *The Conservative Nanny State: How the Wealthy Use the Government to Stay Rich and Get Richer* (2006).

In *The Conservative Nanny State* you point to the fact that privileged strata in the USA have been able to use the state for their benefit. Has the present crisis confirmed this tendency?

The response to the current crisis is certainly consistent with my view of how the wealthy use the federal government. They managed to quickly arrange financial bailouts that saved several major financial firms from collapsing and allowed many of the executives who effectively bankrupted their firms to stay in control. There is genuine public interest in preventing a financial collapse and in that sense the bailout was helpful. However, it could have been designed in ways that did not reward the people who brought on the cri-

sis. As it is, there were few checks put in place to ensure that the bank executives did not profit hugely off the taxpayers.

Will this crisis lead to a long-term change of the role of the state also in the US, as regulator, as owner of nationalised companies? Are there certain sectors that would actually benefit from being run by state-owned companies?

We need some clear thinking on where we want the market and where we want the government. In many cases, the government will certainly be more efficient than the private sector. For example, in the case of social security and guaranteed student loans, the government can provide these services at a much lower cost than the private sector. On the other hand, it is likely that the private sector will generally be more innovative.

This creates a situation in which we may want the main actors in some sectors to be public as a way to keep down costs and raise efficiency. On the other hand, some things are best left to the private sector. For example, it would be good if Fannie Mae and Freddie Mac stayed as public corporations. They perform a very routinised task.

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When taxpayers’ money is used to bail out banks, it is hardly surprising that taxpayers want loyalty in return. However, a very popular idea recently has been that companies no longer have a homeland, a national identity. Their owners are often

international, and the components of any products are often made all over the world. Has the crisis shown that this idea is at least partially false?

I would say that the crisis has helped push more towards the idea that companies are genuinely global. This was most clearly seen in the case of the AIG bailout. The Treasury paid off tens of billions of dollars to foreign banks. The government had no legal obligation towards these banks. My guess is that it was done to maintain the credibility of US capital markets, however it shows that there cannot be a commonality of interest among banks across national boundaries.

There are many signs that protectionism is on the rise globally, often but not only in the form of subsidies. Recently for instance the government in China introduced a “Buy China” policy, partly perhaps as a response to US policy. Russia recently refrained from applying to join the WTO and declared its intention to create a regional bloc of former Soviet republics, convinced that the world economy with the waning of US power will reconstruct itself in large regional blocs. Are these temporary measures or are we actually beginning to see a kind of deglobalisation occurring?

These measures are ad hoc, but it is likely that we will see trade develop along a different path in the years ahead. The United States is likely to be a far less significant trade partner in the future in a large part because its imports are sure to fall, to eliminate the trade deficit. The countries losing export markets in the US are likely to look to regional markets to replace them. This hardly means the end of free trade. It just means that our trading partners will be looking towards other countries to be their markets.

You point out that highly qualified groups in the US are protected in many ways from global competition and you show what the benefits would be, to healthcare for instance, if this protectionism were abolished. Would it be possible to move in the other direction, and extend the protection to less qualified workers? Some thinkers in Europe – Emmanuel Todd and Jean-Luc Gréau in France for instance – argue for European protectionism to avoid the downward pressure on wages caused by global competition. Could such measures also be relevant for the USA?

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There is already some protection for less-educated workers. We don’t allow free immigration in the United States. If we allowed anyone who wished to work here to enter the country then we would have even more downward pressure on the wages of tens of millions of workers. But I don’t think it would be economically desirable, or politically realistic to open the door to all immigrants. So we have and will probably continue to have a somewhat protected labour market by virtue of restrictions on immigration.

In the USA, there will be limits to how much state policy can be explicitly redistributive. This is why it is likely to be easier to achieve gains in living standards for the bulk of the population by changing the rules so that the middle and bottom segments benefit from market outcomes, rather

than those at the top. I am not sure that we will see much policy pushing toward this end in the next couple of years.