

***Trade Politics, a Politics of Illusion***

*By Political & Economics Analyst Sheldon Birkett*

On December 18, 2017, Canadian and British governments materialized in front of a U.S. trade tribunal arguing against Trump’s aggressive countervailing duties on Bombardier’s C-series jet. [i] The Canadian Ambassador to the United States, David MacNaughton, said the imposition of up to a 300 percent countervailing duty is illegitimate speculation premised on pure conjecture. [ii] This is one of the latest developments in the pro-protectionist populist backlash against the historic trend of global economic liberalization (circa. 1945).

The politics of trade protectionism must not be viewed in isolation from globalization, rather, protectionism is part of globalization. Irrespective of the variants of populism, which now pierces through the frontiers of domestic politics into global politics, globalization has perpetuated horizontal and vertical socio-economic global inequalities. Globalization in its entirety is a multifaceted and illusive concept, which is ambiguous when examining it as a singular comprehensive topic. Instead it is more practical to study the elements of globalization (i.e. economic liberalization, supranationalism, populism, integrated national policies etc.) in isolation then bring such topics together under a multifactor framework of analysis. This frame of analysis is similar in going from a partial to general equilibrium analysis in economics, but rather from a multidisciplinary approach. However, a complete comprehensive assessment of globalization could not be adequately portrayed in this article for sake of brevity, for that reason I will only examine the effects of trade liberalization on the politics of trade.

Like any good trade model measuring the welfare effects of trade on the factors of production (capital, labour, land) it is necessary to start with the stolper-samuelson theorem as the theoretical backbone for the welfare analysis of trade liberalization. The stolper-samuelson theorem states that the relatively abundant factor used relatively intensively in production benefits from trade liberalization, while the relatively scarce factor used relatively non-intensively in production does not benefit from trade liberalization. [iii] In other words, an increase in the relative price of labour-intensive goods will increase the wage rate and reduce the (capital) rental rate relative to both commodity prices (i.e. labour and capital-intensive goods). The stolper-samuelson theorem works because according to the ricardian trade model the price of the good that has a comparative advantage increases, while the price of the good that does not have the comparative advantage decreases, when free trade occurs between two countries.

The simple insight that the stolper-samuelson model provides, when it comes to the welfare effects of trade, goes a long way in explaining both the recent rise in resentment and prejudice against global trade liberalization. However, the stolper-samuelson theorem in reality does not act in isolation from other macroeconomic phenomena, such as global finance. Therefore, why does trade face the brunt of accusations in the backlash against globalization? To answer this question it is necessary to steer away from the topic of economics and focus on the ethics behind why individuals - in the west - can justify financial risk adverse behaviour, which has resulted in one of the largest moral hazards in history (i.e. 2008 financial crisis), while not justify the minor economic consequences of free trade. The divergence between justifying financial risk adverse behaviour versus not justifying the negative consequences of free trade is

certainly an arbitrary assessment. Professor Dani Rodrik at Harvard University's John F. Kennedy School of Government found that individuals resisted free trade when it resulted in job losses as a result of unfair trade practices, as “It’s one thing to lose your job to someone who competes under the same rules as you do. It’s a different thing when you lose your job to someone who takes advantage of lax labor, environmental, tax, or safety standards in other countries.” [iv] Free trade under the same regulatory rules underpins the “fair trade” argument, however it is equally important to recognize that when barriers (i.e. countervailing duties, quotas, production subsidies) arise due to “unfair trade practices” they are often met with political buyins that distort the gains from trade. [v]

The politics of free trade shows that people suffer from a sense of “adiaphorization” of perception, when there is a disconnect between a person’s behaviour and the outcome (or effect) of their action. Adiaphorization is also referred to as the “disappearance of [individual] responsibility as a result of the division of labour.” [vi] This is most commonly illustrated in collective action failure problems. For example, the divergence between an individual's action and the accumulated effects of his or her action(s) adding to the negative consequences of climate change (e.g. pollution). As such, people’s perception of free trade is heavily disconnected from the real economic implications of trade liberalization policies. In the 1990’s U.S. advocates for the North American Free Trade Agreement (NAFTA) professed the extraordinary benefits NAFTA will have for North American productivity, competitiveness, and economic growth. However, a 2003 study illustrated that NAFTA would at most contribute to 0.5 percent of GDP growth in the United States once the agreement became fully integrated. [vii] Similarly, for Canada and Mexico the NAFTA narrative is mixed.

Despite the modest economic gains attributed to NAFTA, the public perception of free trade has hit a wall. No, this is not Trump’s physical wall with Mexico, but it is an inherently ideological, populist, idiosyncratic anti-trade barrier that has been steamrolled by demagoguery political ideals.

The recent anti-NAFTA political reaction in the United States and other western liberal democracies represents a divergence between people’s perception of FTAs, filtered through ideological lenses, and the real aggregate implications FTAs have on the overall economy. In essence, this has been the crux of trade politics as a politics of illusion. Despite the divergence between perception and effects of FTAs this does not entail that citizens’ reactions against FTAs, such as NAFTA, are inherently justified. Similar to individuals support for or against FTAs justified as being fair or unfair agreements, it is possible to justify people's perception of FTAs (for or against free trade) depending on the political alignment of the population. This is to say even if free trade has no negative welfare impact on a person’s wellbeing, perhaps can even be beneficial, individuals will still choose to support or not support FTAs based on their own political/ideological alignment. For example, anti-free trade support based on political alignment has recently been seen across most western liberal democracies with the rise in right-wing (and left-wing) political parties. Surprisingly, the most developed countries have not been immune to trade politics as a politics of illusion.

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*“Neoteric, Substantive, Global”*

In considering trade politics not just as the politics of utility maximization, but as a politics of illusion filtered through ideology, much of the economic models used to understand the welfare effects of trade liberalization have become obsolete. Much to the same degree how protectionism must be viewed as part of the tension of the globalization process, and not as globalization’s antithesis, a multidisciplinary approach is inherent in the study of globalization. In terms of trade politics, a multifactor approach spanning across both political science, economics, literary and cultural studies is essential. In this regard, trade politics as a politics of illusion is an exemplar of such an approach.

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## *Citations*

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