

The selfish hegemon must offer a New Deal on trade

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In the 1980s, Japan was feared in the US to be a lethal combination of Superman and the evil genius Lex Luthor in a classic case of what I have called the Diminished Giant Syndrome. Members of Congress famously smashed a Toshiba radio cassette recorder on the steps of Capitol Hill in protest in 1987. Great Britain at the turn of the 19th century had been marked by similar diffidence, despair and recrimination when Germany and the US were emerging on the world scene. There, Sir Howard Vincent entered parliament festooned with mops, pails and brushes marked “Made in Germany”.

US hegemony survived the exaggerated threat from Japan. But the US is now once again a fearful giant. Many Americans see trade as a peril rather than an opportunity. This has turned the US from what the economist Charles Kindleberger famously called an “altruistic” hegemon into a “selfish” hegemon.

On the back of economic anxiety in the country, many in both political parties (although far more among Democrats) see freer trade now as a costly giveaway to others at the expense of the US. They ask: “What is in it for me?” Only an agenda for institutional change, one that addresses the true causes of the anxiety in the US today, has a chance of returning trade policy to sanity.

The US role in the failed Doha trade talks illustrates the collapse of American leadership. Here, the US has been the central spoiler, refusing to cut its **trade-distorting subsidies** significantly even though they are universally recognised as intolerable. Its latest offer was to cap them at \$14.5bn (€9.84bn, £7.76bn) but that well exceeded current payouts, estimated at \$9bn. With only 2m farmers in the country, the US still attacked India for asking for an enhanced “special safeguard mechanism” to be used in case of an import surge, when India has far smaller, often subsistence, farms and nearly two-thirds of its population in rural employment.

While making negligible concessions itself, the US was insisting on difficult concessions from India, made even more troublesome politically because of the insubstantial offer on US subsidies. Besides, when the Doha talks started, the developing countries were not even supposed to be making concessions in agriculture. Throughout the Doha negotiations, the office of the US trade representative and US Congress pointed a finger at others – at Brazil, then at India and then also China – but have never considered their own roles. The US has also muscled in to its bilateral preferential trade agreements (nearly all with small, developing nations) conditions unrelated to trade at the expense of their partner nations. Thus a country that is hardly an exemplar on labour rights, where the right to strike has been severely restrained since the Taft-Hartley legislation more than half a century ago, where union membership in the private sector has declined to less than 10 per cent of the labour force, and which has not ratified all the International Labour Organisation’s core conventions, has had the effrontery to impose standards on others in these PTAs. Why? It is evidently not because it practises what it preaches and demands. Rather, it is because the labour lobbies believe, without any compelling evidence, that American wages have been stagnant because of competition from the developing nations. Further, they believe that if one could only stand Thomas Friedman of “flat earth” fame on his head and flatten the earth by raising these countries’ labour costs up to US levels, that would help reduce competition. In short, this is what economists call “export protectionism”.

What is doubly offensive about this exercise of political muscle is that it is advanced in the language of altruism: not by saying frankly that it is because “our unions are worried about competition” but by pretending that it is “in your workers’ interests”. An altruistic hegemon would not be

playing these games; a selfish hegemon will do little else. Senator Barack Obama does not quite get this. By asking, as part of his agenda for change, that the US should now impose even more draconian labour requirements in future PTAs, and that the North American Free Trade Agreement should be revised to incorporate yet tougher labour requirements, he is making export protectionism, and the reputation of the US as a selfish hegemon, worse, not better. Some change. Change is indeed in order, although along totally different lines. It must reflect a holistic view of the new reality that the US confronts. In particular, the economic anxiety that overwhelms US workers today stems from the increased fragility of their jobs.

First, as with Japan in the 1930s, when one-dollar blouses flooded the world, India and China today are growing and exporting rapidly. They are like Gullivers in a Lilliputian world economy. They create tsunamis for specific industries where their exports concentrate. Second, competition has intensified. As exemplified by the Boeing-Airbus saga, the margins of competitive advantage have shrunk. No chief executive or any of his workers in tradable industries leads a happy life any more as there is always someone, from somewhere, breathing down his neck. I call this new phenomenon "kaleidoscopic comparative advantage". It leads to volatility of jobs, as you have an advantage today and can lose it tomorrow.

Third, labour-saving technical change continuously threatens assembly-line jobs for the unskilled. The assembly lines continue but increasingly do not have workers on them; they are managed from a glass cage by skilled operators whose jobs increase instead. The agenda for institutional change has to address this fragility of jobs, enabling unskilled and skilled workers to face the new uncertainties. To illustrate: higher education will have to be recast to reduce the proportion of time spent on specialisation: this would enable an easier response to shifting skill requirements as the kaleidoscope turns. Unskilled workers will have to be helped and encouraged to acquire skills and therefore increase their ability to shift to other jobs, even as they continue to work.

Senator Obama promises change but he needs a deeper understanding of the anxiety-causing "new epoch" to define his new agenda shorn of protectionism. John McCain, the Republican presidential candidate, admirably stands for free trade but shows no evidence whatsoever of comprehending that this needs to be situated in an institutional context that requires a serious overhaul. Who will ultimately offer us the right New Deal?

The writer, university professor, economics and law, at Columbia University and senior fellow in International Economics at the Council on Foreign Relations, has just published 'Termites in the Trading System: How Preferential Agreements Undermine Free Trade'. His next book on US trade policy, 'Terrified by Trade: Institutional Change to Address Anxiety and Contain Protectionism' (Oxford) is to be published in spring 2009

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