

Latest Edited Version of FT Article for Tuesday

Appeared in The Financial Times, March 4th 2008

Jagdish Bhagwati

While Barack Obama and Hillary Clinton are locked in combat for the Democratic party's presidential nomination, commentary on the front-running Mr Obama's policy agenda, especially on trade, has become faintly ludicrous.

On the one hand, David Wessel declared in the Wall Street Journal recently, as others have, that the two had no disagreements on trade policy. On the other hand, Mrs Clinton has assaulted Mr Obama for having no policy agenda at all, a charge that John McCain, the Republican front-runner, has eagerly embraced. Both views are wrong. Mr Obama has specifics; and they differ in important respects from those offered by Mrs Clinton.

The Russian proverb goes that, if you are looking for a good son-in-law, you would not ask whether he drank but only how he behaved when he was drunk. Similarly, no Democratic candidate during the primaries can be anything but a protectionist. The only question is: of the two, which is likely to be friendlier as president to the cause of multilateral free trade? Careful scrutiny suggests that the odds are in favour of Mr Obama.

To be sure, all Democratic candidates must face the reality that their party has gravitated towards protectionism, overt and covert, in the last decade. The number of Democrats voting for trade deals has steadily declined. The North American Free Trade Agreement was a turning point that deeply divided the party and then a succession of bilateral free trade agreements, many paltry, has steadily eroded the political capital of free-trade Democrats as they were forced repeatedly to go in to bat for trade in sceptical constituencies. The Democrats have also had to face the problem that the anti-war groups that have helped lift the party's fortunes also overlap often with anti-globalisation and hence anti-trade groups, so that the party tends to be propelled into an anti-trade position willy-nilly.

This time, however, it is the labour unions that have come to dominate the scene. The last congressional elections saw their rise to disproportionate power, with nearly all newly elected Democrats indebted to union support that is doubly potent since it offers both labour (to ring bells and make house calls) and capital (to run advertisements). Besides, with the protectionist influence of John Edwards a factor in the race, Mr Obama and Ms Clinton were inevitably pushed into denigration of freer trade. The close race for working class votes, the latest in Ohio, has meant that the witless fear of trade as the source of distress had to be indulged.

Yet, at least five reasons make Mr Obama a less disturbing prospect.

First, Mrs Clinton, in an infamous interview with the Financial Times, responded to a question on support for the Doha round with the need for a pause whereas Mr Obama has not done so. Second, whereas Mr Obama's economist is Austan Goolsbee, a brilliant Massachusetts Institute of Technology PhD at Chicago Business School and a valuable source of free-trade advice over almost a decade, Mrs Clinton's campaign boasts of no professional economist of high repute. Instead, her trade advisers are reputed to be largely from the pro-union, **anti-globalization** Economic Policy Institute and the AFL-CIO union federation.

Third, Mr Obama's main union support comes from the Service Employees International Union and the Teamsters, neither of which is protectionist: the SEIU's membership is in the non-traded sector and, except on the issue of Mexican trucks coming into the US, Teamsters do well as trade expands. By contrast, Mrs Clinton's support comes heavily from the AFL-CIO which holds strong anti-trade views. This matters because the IOUs you sign during campaigns provide a straitjacket that can restrict your policy options.

Fourth, while Mr Obama's anti-Nafta rhetoric is disturbingly protectionist, as is Mrs Clinton's, remember that this is also strategic. If both are anti-Nafta in the campaign now, her opposition is reinforced because she carries the burden of having supported her husband in backing it.

Fifth, Mr Obama has smartly seized John Kerry's proposal to remove the

incentive to invest abroad and has gone further by proposing that those who invest at home will be given a tax incentive. It is dubious that this proposal will survive challenges from existing bilateral and World Trade Organisation agreements, or can achieve much when other countries can do the same. It is exactly the sort of policy that a constituency fearful of losing jobs demands but, by meeting that demand, President Obama would be left free to abandon the anti-trade rhetoric and embrace the multilateral free trade that has served the American and the world interest so well.

Indeed, since today's protectionism owes principally to fear of imports from the developing countries, it leaves protectionist Democrats in an uncomfortable position. They assert cosmopolitanism and international altruism while trying to effectively close the door, on the basis of flawed analysis that blames globalization, on countries trading their way out of poverty. The "hope" and "change" that the country's young want from a new Democratic President are incompatible with protectionism and require instead a new architecture of supportive institutions to meet the challenges of a new epoch.

The writer is university professor, economics and law, at Columbia University and senior fellow at the Council on Foreign Relations. Oxford will publish in May his latest book, 'Termites in the Trading System: How Preferential Agreements are Undermining Free Trade'. Seth Flaxman contributed to this article