A Socialist Response to Neoliberal Globalization

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The Trump administration has brought tariffs to the forefront of political debate. By pinning the decline of US manufacturing on the shortcomings of trade deals such as NAFTA, Trump has promised working Americans that he would fight to protect and bring back their jobs, especially through protectionist measures.

At no point, however, has Trump talked about or challenged the issue of global capital mobility — the “free trade” of global money flows. Rather than work to prevent corporations from being able to offshore production in the first place, Trump has chosen to pressure other nations into providing US corporations with better positions in global value chains (GVCs).

Donald Trump is selling American workers a false bill of goods. The administration’s policies place pressure on rising capitalist nations that threaten the economic hegemony of American firms by attempting to bully them into compliance with trade deals that are favorable primarily to the US capitalist class, while sidelining the needs of working Americans. Importantly, this does nothing to guarantee the return of manufacturing jobs or a rising share of income for labor in the United States.

As socialists, we need to do more than point out Trump’s mendacity — we need a response to neoliberal globalization that can challenge the power of multinational corporations (MNC).

At its core, neoliberal trade policies, which argue that liberalizing trade between nations will maximize economic growth and welfare for all, stem from the ideological arguments of nineteenth-century political economists, and in particular, David Ricardo’s theory of comparative advantage.

Ricardo’s basic argument was that if nations specialize in producing goods and services in which they have lower relative costs of production, and trade with other nations who are doing the same, then the collective output of goods on the global market will be optimized, thus leading to higher standards of living for all participating in these trade agreements, an eventual balancing of trade, as well as a tendency for full employment as the productive capacity of countries becomes maximized.

The problem with this theory, as Anwar Shaikh and others have pointed out, is that it is in contradiction to the history of trade and development. Primarily, it is not true that there is a tendency toward full employment in conditions of free trade. Trade deals that generate job losses in one nation do not guarantee new jobs for those same workers within a relevant period of time. Secondly, there is no empirical demonstration of a tendency for trade imbalances to correct themselves in the long run. Rather, the rule seems to be one of chronic trade imbalances.

Instead of *comparative* advantage in the prices of production driving relative specialization between nations, empirical evidence demonstrates that the primary driver of trade specialization is the *absolute* cost of production. That is, nations with overall lower costs of production as a whole will consistently outcompete high-cost producers, with the latter being required to finance chronic trade deficits through depletion of currency reserves or through sufficient foreign direct investment (FDI) and lending from elsewhere. High-cost producers are then caught in a race to the bottom, with downward pressure on real wages exacerbating income inequality on both the global and national scales.

In the real world, international trade occurs between firms within GVCs. These chains are best understood as production lines, where corporations locate various stages of production within different nations, with each stage "adding value" to the overall price of a product. Such an arrangement allows for producers to cut costs by offshoring aspects of their production to lower-cost nations through FDI, as well as squeezing foreign suppliers' share of the profits from the final product.

While offshoring has always been a feature of international trade, William Milberg and Deborah Winkler demonstrate that this process of "vertical integration" has substantially escalated in the neoliberal era. This results in a given nation's exported goods becoming increasingly dependent on imported inputs for production, where the total value added at a particular point in the supply chain may be very small.

For example, between the period of 2000–9, about 75 percent of US exports relied on imported inputs from abroad. Rather than purchasing inputs from firms located in the United States, which would be more costly due to higher wages, more inputs are obtained from elsewhere where lower wages and overall costs prevail.

Firms lower down in GVCs are also not guaranteed a significant portion of the profits. While much is made of manufacturing shifting overseas from developed nations, many of these new manufacturing firms in the Global South are also reliant on imports. Many of these imports are from firms often owned in part or fully by multinational corporations. These MNCs then take the final product and "add value" by branding it and marketing it in key consumer markets.

The United Nations Conference on Trade and Development's (UNCTAD) report in 2018 corroborates this. Using data from the World Input-Output Database, the authors show that from 2000–2014 the "domestic share of total value added and domestic share of labor income in total value added declined in most countries," with the notable exception of China, who has been one of the world's few success stories. Additionally, the extent of market concentration is striking, with the top 1 percent of exporting firms accounting for 57 percent of total global exports in 2014.

Thus, global trade is characterized by increasing market concentration and profit accumulation to large MNCs based in the industrialized core. The result is a polarization of incomes and living standards throughout the globe; as industrialized country firms capitalize off of cheap inputs to production in order to outcompete other firms, developing nations are forced to compete by lowering costs and domestic wages to attract FDI in order to capture some share of total value added.

Being resigned to the lower rungs of the ladder, however, developing nations are often only able to capture small gains in trade. Furthermore, they tend to be dependent on the industrialized core and surplus nations for financing and access to export markets. Improving one's position in the value chain may require more active state and industrial policy, but that is often precluded by free trade deals and their binding requirements.

Such a world makes the use of tariffs ineffective in combating trade imbalances, or even in protecting jobs, as explained by Jan Kregel. Because trade occurs between firms that use different units of account (i.e., different currencies), it requires financial intermediation allowing these exchanges. In other words, firms must take out bank loans, or find other means of financing, to obtain the currency they need to make these exchanges in the face of trade imbalances.

Additionally, after the economic crisis of the early 1970s, international trade entered an era in which the financing of trade imbalances has increasingly relied on private capital. This has made nations much more subject to the possibility of "sudden stops" or "capital reversals," in which financiers pull out their money, stopping the steady flow of goods and services in trade. Nations that pursued policies that were contrary to the emerging neoliberal consensus were often subject to this risk, with investors doubting repayment and questioning the nations' "economic fundamentals," creating exchange rate crises and eventual domestic financial crises over foreign debt.

In short, trade is driven by financial deals, with MNCs seeking the lowest-cost production to maximize profits and covering trade imbalances with capital flows. If capital is willing to finance a trade deficit, it will occur. Given the predominance of the trade of intermediates and concentrated markets at the top of supply chains, tariffs do little to adjust patterns of trade or protect industry in the United States. Rather, tariffs would act to raise costs and slow down economic growth absent any corresponding industrial policy to grow and develop protected industries. If the reversal of trade imbalances or the protection of jobs is the concern, then our focus should be on capital flows and their role in this process rather than policies like tariffs.

What then should we do? One strategy is to directly confront the ability of capital to move across borders in the first place by instituting various capital controls in order to address trade imbalances and pursue policies oriented towards the needs of workers, as argued by scholars such as James Crotty and Gerald Epstein.

In particular, capital controls would help reorient power over issues of trade and economic development by restricting the ability of financial capitalists and MNCs to threaten labor by divesting their money and offshoring their production. This would lay the groundwork for pursuing full employment through a job guarantee program and would increase labor's bargaining position over wages, since the vagaries of international capital flows would be precluded.

Historically, capital controls have been an indispensable component of development for now industrialized nations. Such policies aided in the management of their currency values and allowed them to pursue industrial policy, properly developing their own economic capability to capture a share of the value-added in trade higher up GVCs. Of course, this doesn't guarantee a rising income share accruing to labor, so such policies would have to be combined with the strengthening of unions, challenges to private concentrations of economic power, and ultimately democratization of the means of production.

Without their proper use, pursuing expansionary policy can bring about a process which increases trade deficits, exchange rate fluctuations, and even lead to competitive devaluations of real domestic wages. If uncontrolled, capital inflows and outflows can be damaging and bring volatility to currency values and domestic prices. The strength of this process will depend on the relative importance of trade for any particular economy. Importantly, trade imbalances should not be seen as an afterthought to domestic policy, as socialist policies can quickly become politically untenable because of the economic pain financial conditions will bring if capital flight occurs.

There are myriad forms of potential capital controls. They range from stand-by controls, wherein countries agree to return illegal money flows, to taxes, such as a small tax on all foreign exchange transactions, which would raise revenue and discourage speculative short-term flows. There could also be heavy restrictions on domestic and foreign bank lending. Even stronger policies include straightforward quantitative restrictions, such as outright bans on transfers or the selling of assets, regulating the rate of capital mobility, or restricting who can supply foreign exchange.

The threat of even more comprehensive and restrictive capital controls, such as the complete freezing of assets or foreign lending, could be used to force capital into bargaining over more progressive and democratic economic arrangements, as well.

The upshot is that capital controls will allow for more stable economic management as we reallocate and reinvest wealth away from large cash pools held by the rich and towards socially necessary services and production. They create policy space for agendas such as full employment, investment in green infrastructure, and stronger protections for workers. They could even be integrated into trade deals with other nations to construct multilateral agreements which begin to tackle the problem of tax havens and illicit finance.

As powerful as they are, the use of capital controls cannot be the only aspect of a leftist approach to trade. Two additional issues need to be addressed. First, that the current global trade regime leaves developing nations dependent on the industrialized core for manufactured imports and technology, and second, that the international system will require radical reforms to truly produce just trade and the economic development of all nations. When it comes to the technological dominance of the industrialized world, there should be more mindful consideration of how to channel this to developing nations.

We should be bolder when it comes to the transfer of technology and the handling of intellectual property. Looking to Britain, the Labour Party's John McDonnell has advocated for the "free or cheap" transfer of green technology to the Global South as a form of reparations for imperialism. A socialist long-term goal should be the public sharing of scientific and technological progress. No trade deal should operate to shackle developing countries with debt in order for them to obtain the technology needed to transition to a green economy.

Going even further, as socialists we should advocate for multilateral institutions that structure trade and international payments to foster the economic and social development of nations. In one sense, this entails the replacement of the US dollar as the international reserve currency with a system that is not nested in any particular nation — something akin to the *bancor* system advocated by J. M. Keynes, and more recently by Paul Davidson. Many nations need US dollars and other key currencies to buy essential imports, making them reliant on export income or foreign loans. A supranational unit of account that is not controlled by a single nation would help to solve this problem.

The United States is unique in that it possesses the privilege of issuing and managing the world's reserve currency. For this reason, it does not face the constraints on financing trade that other countries will, presuming that there is always international demand for US dollars. It is likely that the US could embark on expansionary macroeconomic policies without rapidly facing a balance-of-payments constraint. However, American socialists should not neglect the trade concerns of the rest of the world because of this exception, nor should they seek to maintain this privilege.

Of final concern is that the current system encourages the reduction of labor costs and exchange rate depreciations to incentivize FDI and increase the competitiveness of exports. This austerity can only lead to economic stagnation and deepens the potential of a debt crisis. An alternative system would place the burden of adjustment on trade surplus nations, who must recycle their surplus earnings into investment in deficit nations, helping correct these imbalances in the future.

This means allowing developing nations to pursue the policy and investments needed to upgrade their positions within GVCs.

The current global system has allowed for increased concentrations of economic power by firms in industrialized countries, leading to increased inequality and the polarized development of nations. Under the guise of free trade and development, neoliberalism has allowed for the free flow of capital around the world to facilitate these developments.

A left approach to trade policy ought to concern itself with reforming this system so that developing and developed countries alike can pursue industrial policy, promote technology transfer, combat concentrations of private economic power, and fight for multilateral institutions that ensure economic development and buttress human rights. National domestic policies should additionally be geared toward achieving full employment and developing economies for social need.

None of this can be reasonably achieved, or easily done, without the implementation and use of capital controls and cooperation between nations.

To go further would be to fundamentally transform the international trade and payments system itself by arranging a new international system, with mechanisms in place to put the burden of adjustment on trade surplus nations. Trade policy needs to seriously tackle the financial nature of the global economy today, else we will continue a race to the bottom for the benefit of large corporations. To do so requires directly confronting and controlling capital.