

in brief...

Globalisation and its discontents: Trade Week at CEP

CEP's Trade Week brought together researchers and policy-makers to discuss the recent trend towards protectionism, its causes and directions for future policy.

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International trade and globalisation are currently among the most pressing policy concerns in many countries around the world. The trend of increasing global integration in the past few decades now appears to be slowing or even reversing. To address these pervasive issues in light of cutting-edge academic research, CEP recently hosted 'Trade Week', a series of trade-related events for scholars and policy-makers.

One prevalent theme across the events was the need to understand why the backlash against globalisation has happened. There is a broad consensus among economists that one of the key drivers has been the stagnation of productivity and real wage growth in the developed world. In many countries, it is likely that a significant fraction of the current generation will be less well off in real terms than their parents, as noted by CEP's director Stephen Machin in the opening event of Trade Week – a policy panel entitled *Lost Generations? Globalisation and the Left Behinds of Tomorrow*.

Also speaking on that panel at the British Academy, Elhanan Helpman (Harvard University) suggested that widening income inequality can cause changes in patterns of social identification that could have caused the shift towards protectionism. This argument was then presented in formal academic work (Grossman and Helpman, 2018) by his co-author Gene Grossman (Princeton University) at the second event of Trade Week: the annual European Research Workshop in International Trade (ERWIT) co-organised by the Centre for Economic Policy Research (CEPR).

There is strong evidence that trade leads to changes that have important distributional implications. The rise of multinational firms is changing the landscape of employment. The growth of 'superstar' firms has led to a smaller share of labour in the production process, according to CEP's former director John Van Reenen at the final policy panel entitled *Lost Generations? Trade, Technology and the Future of Work* (Van Reenen, 2018).

Exporting firms also seem to contribute to widening gender inequalities. In a recent study, Beata Javorcik (University of Oxford and director of CEPR's international trade and regional economics programme) and colleagues show that exporting firms in Norway have a higher wage gap than non-exporters (Bøler et al, 2018).

Globalisation has led to the emergence of new players in world trade, mainly the rapid rise of China as a key exporter since its accession to the World Trade Organization in



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2001. This has translated into greater import competition in developed countries, which has caused job losses that have been particularly severe in the manufacturing sector, as first shown by David Autor (MIT) and colleagues (2013).

In an ERWIT study, Håle Utar (Bielefeld University) used data from Denmark to present new evidence that this phenomenon has also led to higher gender earnings inequality by increasing fertility rates and marriages, and lowering divorce rates (Keller and Utar, 2018). More recently, the slowdown of the export sector in China has caused labour uprisings, as shown by Davin Chor (Dartmouth College) and colleagues in another ERWIT study (Campante et al, 2019).

There is a broad consensus among trade economists that protectionist policies are not the appropriate response to these effects of globalisation. There is already evidence that the Brexit vote and the trade war have been costly for UK and US citizens.

Economists remain confident that there are aggregate gains from trade and that the key to trade policy is to ensure that these gains are spread across society. To enable this to happen, it is essential that workers have the necessary skills for the modern economy, which means that education policy is key. This includes university degrees, lifelong retraining and vocational training.

One possible way that governments could encourage this is with a 'human capital tax credit' much like those already provided to investors in physical capital (Costa et al, 2018). Even when workers are well-skilled to work in a globalised world, there will inevitably be short-term adjustments to increasing globalisation so social safety nets remain essential, as was advocated by Marion Jansen, chief economist of the International Trade Centre, during the first policy panel.

CEP's Trade Week brought together academic researchers and policy-makers to discuss the recent trend of protectionism, its causes and directions for future policy. The overriding theme was that while globalisation can greatly benefit the world economy, countries must do more to ensure that the gains are shared.

Further reading

David Autor, David Dorn and Gordon Hanson (2013) 'The China Syndrome: Local Labor Market Effects of Import Competition in the United States', *American Economic Review* 103(6): 2121-68 (<https://www.aeaweb.org/articles?id=10.1257/aer.103.6.2121>).

Esther Ann Bøler, Beata Javorcik and Karen Helene Ulltveit-Moe (2018) 'Working Across Time Zones: Exporters and the Gender Wage Gap', *Journal of International Economics* 111(C): 122-133.

Filipe Campante, Davin Chor and Bingjing Li (2019) 'The Political Economy Consequences of China's Export Slowdown', NBER Working Paper No. 25925 (<https://www.nber.org/papers/w25925>).

Rui Costa, Nikhil Datta, Stephen Machin and Sandra McNally (2018) 'Investing in People: The Case for Human Capital Tax Credits', CEP Industrial Strategy Paper No. 1 (<http://cep.lse.ac.uk/pubs/download/is01.pdf>).

Gene Grossman and Elhanan Helpman (2018) 'Identity Politics and Trade Policy', NBER Working Paper No. 25348 (<https://www.nber.org/papers/w25348>).

Wolfgang Keller and Håle Utar (2018) 'Globalization, Gender, and the Family', NBER Working Paper No. 25247 (<https://www.nber.org/papers/w25247>).

John Van Reenen (2018) 'Increasing Differences Between Firms: Market Power and the Macro-Economy', CEP Discussion Paper No. 1576 (<http://cep.lse.ac.uk/pubs/download/dp1576.pdf>).