



The P-Word Isn't Killing World Trade

By Jim Stanford

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Global trade flows are collapsing. But it's not because protectionism is raising its ugly head. Rather, it's the meltdown of the market economy, not anti-market intrusions by governments, that is behind the meltdown of world trade.

This is a key distinction because it runs headlong against the long-standing myth that "protectionism" caused the Great Depression (rather than the other way around).

The statistics describe a shocking slump in global trade. In the U.S., monthly merchandise trade fell almost 30 per cent from July to December. Japan's exports plunged by 14 per cent in the last quarter of 2008, sparking a frightening 12.7 per cent annualized decline in GDP. China's imports declined an incredible 21 per cent in the year ending in December.

Canadian numbers are not much better. Our international trade declined 15 per cent in just the last two months of 2008. But exports fell a lot faster than imports, producing Canada's first trade deficit since 1976 – a shocking comedown for a country that thought it could ride a global commodities wave to never-ending prosperity.

Canada's trade has been flagging for years. As a share of our total economy, exports have declined steadily from 45 per cent of GDP in 2000 to just 30 per cent by the end of last year. Again, far from being the result of protectionism, this dramatic decline in trade is actually an unintended result of free trade itself. NAFTA pigeon-holes us as a continental supplier of energy and other resources. Those industries boomed – for a while. But non-resource industries were squeezed out, and an increasing share of output and employment was shifted to non-traded domestic industries.

By the same logic, free trade clearly contributed to the financial catastrophe in the U.S. that is dragging down the whole global economy – and hammering world trade. The U.S. incurred massive trade deficits for years, as U.S. corporations fled in search of lower wages and compliant governments. Americans kept borrowing and spending despite their industrial decline, building up a financial overhang that is now collapsing.

If we really want to boost trade, we should focus on reigniting growth and employment. In this context, we should simply ignore the high and mighty denunciations of protectionism emanating from those who still worship free markets.

Similarly, rescuing the beleaguered North American auto industry will inevitably require addressing the huge trade imbalances that have weakened domestic

The Council of Canadians continues to call for NAFTA renegotiation and for the removal of Chapter 11, which allows corporations to sue the Canadian government for measures – such as health and environmental regulations – that infringe on their profits.

producers so badly. Governments won't invest billions, then sit back to watch imports continue to conquer the market. On the other hand, imagine a managed-trade approach: a new North American auto pact, to assist the recovery of domestic producers and encourage more investment in North America from offshore.

The alternative is a continued meltdown in production and employment that would turn recession into depression, suppressing trade in the process. After all, Canada's auto exports have plunged almost 40 per cent since 2000. So it's clear the "hands off" approach has not exactly boosted trade.

Free-market nonsense about the all-knowing "efficiency" of private markets got us into this mess in the first place – by intellectually justifying deregulated financial practices that were obviously immoral and destructive. Free-trade nonsense about how unrestrained global markets must be allowed to guide our recovery, no matter how unbalanced trade flows have become, can only make matters worse.

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