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The impact of free trade

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Britain is unusually open to trade but unusually bad at mitigating its impact

Jul 30th 2016 | BLACKBURN | From the print edition



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“LANCASHIRE invented the world,” Iain Trickett’s grandfather told him. The old man was half right. During the industrial revolution the county in north-west England pioneered machinery that churned out manufactured goods by the ton; other countries copied it. Traces of that past glory linger on. In a factory in Blackburn highly skilled workers produce top-of-the-range jackets and jeans for companies including Community Clothing, of which Mr Trickett is general manager. Boxes destined for London’s fanciest shops are stacked up by the door.

There are other local success stories, including an old maker of wallpaper-printing equipment down the road in Accrington whose machines now print electrical devices (see [article](#)). But they are the exception. Manufacturing employment in the Blackburn area has dropped by one-third in the past decade. The town centre seems to have more pawnbrokers and betting shops than restaurants or bars. “There’s nothing for young people around here,” says Maureen, a local resident, over a lunchtime game of bingo in a giant gambling complex near the train station.

The travails of Blackburn and places like it have led many to ask whether globalisation does more harm than good. Britain is hardly alone in this. Yet the debate in Britain is overwhelmingly focused on the effects of immigration, particularly from the EU. Usually overlooked—unlike in other rich countries, notably America—is the effect of trade. As Britain embarks on a round of trade negotiations ahead of Brexit, the issue is likely to become central.

Economists agree that foreign trade has afforded big benefits to Britain overall. Trade with the EU since joining it in 1973, for instance, has increased Britain’s GDP by 8-10%, according to Nick Crafts of Warwick University. More recently, as countries like Vietnam and China have become manufacturing giants, consumers have enjoyed cheap imported goods. Philip Hammond, the chancellor, was in

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However, mounting evidence suggests that the gains from free trade are not shared equally. A body of research on the American economy shows that import competition from poor countries can depress the incomes of the low skilled, at least in the short run, says John Van Reenen of the London School of Economics (LSE). One paper concluded that competition from Chinese imports explains 44% of the decline in employment in manufacturing in America between 1990 and 2007.

Free trade
Imports
Imports and exports

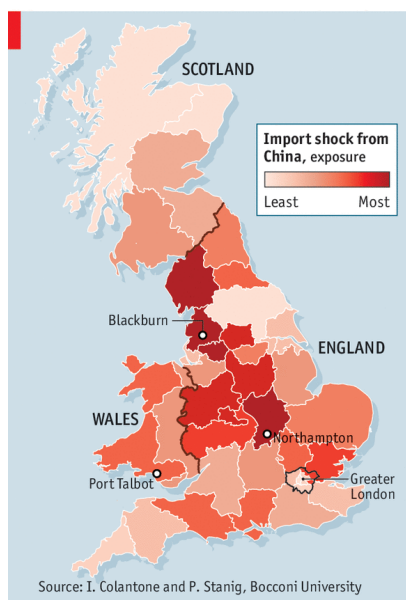
Britain's economy is about twice as exposed to foreign trade as America's. After averaging around 1% of GDP for half a century, Britain's trade deficit in goods soared from the year 2000 and is now about 7% of GDP. China's accession to the World Trade Organisation in 2001 played an important part in this. Britain's growing appetite for imported goods coincided with a collapse in manufacturing employment.

Formal studies back up the circumstantial evidence. João Paulo Pessoa of the LSE looked at the period 2000-07 and found that British workers in industries that suffered from high levels of import exposure to Chinese products earned less and spent more time out of employment than those in other industries. As people fare badly in the labour market, social problems arise: another study found that a one standard-deviation increase in import competition worsened rates of mental illness by 1.2 percentage points.

Open argument

Unfortunately, the pain tends to be concentrated geographically. An index compiled by Italo Colantone and Piero Stanig of Bocconi University shows that almost no part of the country is more vulnerable to competition from Chinese imports than Blackburn (see map). Northampton, with its shoe industry, is similarly exposed; cheap steel imports have left places such as Port Talbot vulnerable. In the past decade the number of over-25s unemployed for more than one year has increased much faster in areas where manufacturing makes up more than 20% of the local economy than in areas where it makes up less. It has coincided with a rise in regional inequality: during the same period the ratio between output per person in Britain's three richest sub-regions and the three poorest increased by a quarter.

On the ground, the result is clear to see: swathes of the country feel left out of Britain's generally healthy economic growth. Areas highly affected by Chinese import competition (which is probably a decent proxy for import competition from anywhere) were particularly prone to vote for Brexit, according to Messrs Colantone and Stanig's calculations. Houses with fluttering St George's flags pepper the landscape around Blackburn.










Source: I. Colantone and P. Stanig, Bocconi University
Economist.com

It does not have to be this way. The large overall gains from free trade mean it should be possible to compensate its losers. That means upgrading the skills of the workforce in places like Blackburn—as is the norm in Germany, which has a sophisticated system of apprenticeships. America's "trade adjustment assistance" programme funds training and support for workers displaced by foreign competition. The EU's "globalisation adjustment fund" does something similar. Britain can (for now at least) apply for its funds.


But it hasn't. Officially the government has "concerns about whether it is an appropriate use of money"; a member state drawing on the fund is also supposed to stump up some of its own cash. But the government's preferred programme, its so-called "rapid response service", is feeble. It is supposed to provide training and support when there are mass redundancies. But it is a murky operation: there are almost no data on what it does. According to a House of Commons report, it "does not appear to be being monitored." In

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correspondent sent an e-mail requesting assistance for a fictitious Blackburn firm a week ago and has received no follow-up.

Data from the OECD, a club mostly of rich countries, suggest that even after accounting for Britain's low unemployment rate, for years it has been a stingy spender on "active" labour-market policies (ie, those that seek to improve the skills of the unemployed, not just let them languish). One paper estimated that British spending on active policies, adjusted for GDP, was about one-fifth that of Germany. Only about 15% of those on unemployment benefit receive any sort of training. Those displaced by free trade thus get little help towards becoming the model employees of tomorrow. Firms in Blackburn looking for good workers often turn to eastern Europeans, Mr Trickett sighs.

Britain has benefited enormously from its embrace of free trade. But its failure to share the proceeds means that in too many places, such as Blackburn, the effect has been underwhelming. Until this is corrected, don't expect arguments about globalisation to go away any time soon, Brexit or no Brexit.

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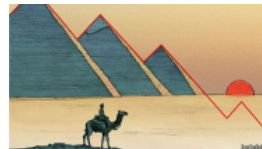
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