

Pushing against the Protectionist Drift

Policy Innovations talks with Professor [Matthew Slaughter](#) of Dartmouth's Tuck School of Business about his New Deal for globalization.

Matthew Hennessey

September 21, 2007



[Matthew Slaughter](#) is a busy guy. On his desk at Dartmouth's Tuck School of Business sits a pile of papers at least a foot high. He called this his 'to-do' list. Saving globalization is apparently at the top.

"I'm often the very first person in the room to extol the benefits that globalization has generated for countries like the United States," Slaughter said. The 38-year-old Minnesota native held the international portfolio on the President's Council of Economic Advisers (CEA) from 2005 to 2007. In that role, he provided President Bush with policy advice on issues of international trade and investment, currency markets, energy markets, immigration, and country-specific relations with economic partners such as China.

He recently returned to Dartmouth, where he is Professor of International Economics and has been on the faculty since earning his Ph.D. in economics from MIT in 1994. On January 1, 2008, he will become Associate Dean of the MBA Program. *Policy Innovations* met up with him this summer on Dartmouth's picturesque campus in Hanover, New Hampshire.

"I've tried to get everyone to understand that the aggregate benefits [from globalization] don't mean that every single American worker—and family, firm, and community—is directly enjoying in those gains," Slaughter said. "I wish that were the case, but that's just not true."

A tall, thin, Jimmy Stewart type, Slaughter's mop of graying hair does nothing to age his boyish face. "He was the skinniest guy I had ever met," said [Anthony Lang, Jr.](#), Slaughter's roommate at the University of Notre Dame. "In terms of academic work, though, he was pretty amazing. I think we only took one class together, a development economics class. I recall sitting next to him and seeing him take notes in a perfect outline form, while I was struggling to keep up with the professor."

Slaughter's academic potential evidently revealed itself at a young age: He skipped the first grade. As a result, he was among the youngest students in his class at Notre Dame—where he eventually graduated with the highest GPA among economics majors. One imagines he has always been the youngest guy in the room.

A 2005 phone call from then CEA Chairman Ben Bernanke brought Slaughter to the White House. Like Stewart's Mr. Smith, though, Slaughter was initially hesitant about going to Washington. A registered Independent, he fretted over the potential political requirements of the position. Bernanke assured him that the job was for an economist, not a political operative. With his mind at ease, Slaughter took a leave of absence from his teaching duties at Dartmouth. "My wife said, I think you're going to need some suits," he recalled.

The CEA was established in 1946 by Harry Truman to advise the president on how best to manage the post-war economy. This task meant preventing a slide back toward the economic conditions that created

the Great Depression. In recent years, the CEA has been home to some of the biggest names in international economics. Alan Greenspan, Joseph Stiglitz, Greg Mankiw, and Glenn Hubbard have served as chairman. Appointment to the council is considered a high honor for an academic economist, though Slaughter tried to stay realistic about his role.

"You go in knowing that, on some issues, the economics are going to be very important and play an integral role in the implementation of policies," he said. "On other issues, though, there are political imperatives that reduce the consideration of economics."

"There's a reason we don't have economists running the country," he added, smiling.

And it may be a good reason. Harry Truman famously longed to find a one-handed economist—one who wouldn't answer every question with, "Well, on the one hand..."

Truman may not have appreciated Mr. Slaughter's approach: "You go in knowing that it's a process. Balance is useful. The CEA adds value by making sure that all relevant parties are aware of the ramifications of particular policies."

Like many economists, Slaughter loves trade. He is aware, however, that the benefits from trade come with acute though manageable costs. At the moment, his prime concern is ensuring that those benefits are not lost to what he calls a "protectionist drift in public policy."

In a recent [article](#) for *Foreign Affairs*, Slaughter and coauthor Kenneth F. Scheve calculate big benefits for the U.S. economy from recent trade and liberalizations—between \$500 billion and \$1 trillion in annual income over the last decade. Yet during that period all but the best-educated Americans saw their incomes stagnate or fall, leading the authors to ask: Why should average citizens support globalization when they see no direct benefit?

"U.S. policy is becoming more protectionist because the American public is becoming more protectionist, and this shift in attitudes is a result of stagnant or falling incomes," the authors note.

So what is a concerned economist to do? Slaughter outlined several policy prescriptions earlier this year in a detailed report for the Financial Services Forum (FSF) titled "Succeeding in the Global Economy—A New Policy Agenda for the American Worker." The *Foreign Affairs* article and the FSF report, co-authored with [Grant Aldonas](#) and Robert Lawrence, appeared almost simultaneously, cementing Slaughter's reputation as a bright young star in international economics. He is now much in demand.

In recent weeks, Slaughter has briefed members of the Senate and the House of Representatives—both Democrats and Republicans—on the specifics of his proposals. He has also briefed a number of the presidential campaigns. Reactions have been mixed. "In talking about these ideas, we've tried to strike a balance of not presuming one could show up as a philosopher king one day and just announce, 'Here's a set of new policies for our country,'" said Slaughter.

Slaughter and his cohorts have offered what they call a New Deal for globalization, "linking engagement with the world economy to a substantial redistribution of income." They advocate a more progressive tax system, possibly including the elimination of the [FICA tax](#) for Americans earning below the national median (\$33,907 in 2006). Also high on Slaughter's agenda is combining the Unemployment Insurance program with the Trade Adjustment Assistance (TAA) program. TAA compensates and retrains Americans who lose their jobs due to trade.

"TAA is never going to address the concerns that exist in the US as to what trade is about," Slaughter

said. "The scope of what's tradable across borders is changing day-by-day, and [TAA] focuses on a subset of manufacturing industries. It doesn't speak to the breadth of pressures that globalization seems to be generating now and might generate in the future."

In fiscal year 2005, he noted, U.S. Labor Department spending on TAA was \$845 million. That's pocket change compared to the overall benefit to the U.S. economy derived from trade. "Again, we're talking about hundreds and hundreds of billions of dollars," he said.

Slaughter is keen to emphasize that the benefits of globalization do not accrue solely to rich countries. Hundreds of millions of people in developing nations like India and China have been lifted out of poverty in the past twenty years, he said, "largely because of the introduction and expansion of market forces—the forces of international trade and investment."

Preserving this trend, he maintains, is in the interest of the United States and the developing world. For decades, the United States has been the global champion of trade liberalization as an engine of development. Slaughter fears that the recent expiration of Presidential Trade Promotion Authority (TPA), also known as fast track, is a signal that the United States is inching toward a more restrictive trade policy. Without U.S. leadership, he fears, the Doha development round of WTO negotiations will come undone.

"Not to be mawkish, but the reality is that every year that goes by where we don't get a successful Doha round negotiated and implemented, is another year where [people in] low income countries around the world aren't enjoying the possible benefits of access to global markets that could help raise [them] out of poverty."

And if Slaughter learned anything in Washington, it's that the numbers do the talking.

"If we have a Doha agreement that truly got world free trade in merchandise and in services, total annual U.S. income would be about \$500 billion higher per year. That's a number that focuses people's attention. That's more than just a rounding error in the federal budget. That's a large number to anyone."

Even two-handed economists.



© 2007 Policy Innovations, All Rights Reserved.