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# BUSINESS TRENDS AND OUTLOOK

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**Uh-Oh!**

For several years, we have been contending that international policy makers, supported by the establishment academic economic community, have been overselling to their constituents the expected benefits of globalized free trade by characterizing it as a "win-win" situation. In addition, we have contended that much of the academic support for free-trade theory derives from traditional input-output econometric models suitable for analysis of closed national economic systems, but not one which is open and global in scope.

Yesterday's *Financial Times* feature article (Comment & Analysis) regarding the Fed's recently concluded annual Jackson Hole meeting was both enlightening and concerning. Of particular concern is that it is reported that the leading participants have now indicated that there will be both winners and losers in a globalized free-trade society, and that they cannot accurately forecast the sectoral effects of a free-trade economy at this point. In addition, Jean-Claude Trichet, President of the European Central Bank, is quoted as indicating that the necessary data to analyze a globalized system does not exist, and the OECD has called for "newly relevant statistical concepts to be defined and explained".

The following are some quotes from the *Financial Times* article:

"Debate on the pros and cons of globalization looks set to continue in largely evidence-free fashion."

"None of the Central bankers suggested they could do much to solve global imbalances. But the unspoken fear at Jackson Hole was that, if these imbalances do unwind with wrenching global adjustments, it will fall to them to pick up the pieces."

"[Production] relocation will be lumpy, sectorally and in aggregate, with some countries being left out."

"..development will not spread evenly, even if all countries adopt basically sound policies."

Most troubling is Fed Chairman Ben Bernanke's call on governments to do more to ensure that any free-trade benefits realized be widely spread within the rich countries. It is not that we don't wish to see the general population benefit from globalized activity. It does seem to us, however, that there is a decided theoretical inconsistency in suggesting that centralized governmental redistribution of financial benefits is consistent with the underlying concept that laissez-faire economic activity should determine such. Perhaps a studied re-examination of the overall fundamental globalization doctrine, and not a seemingly expedient remedy, is what should be being considered.

With these recent pronouncements, leading academics and central bankers have, effectively, kicked away the theoretical prop for the political free-trade arguments that politicians of varying stripes have embraced for more than a decade. In our opinion, this augurs for more future protectionist policies, rather than free-trade support, among the professional politician classes, fearing backlash from possibly disappointed and disillusioned electorates.

As previously suggested, a viable globalized free-trade system requires the political support of the hegemonic power in order to be successful. In this regard, we believe that the next two domestic election cycles (congressional and presidential) in the United States will, in effect, largely determine the future of the current global free-trade experiment.