

## Donald Trump: The king of global trade?

Europe and Asia are the next places for the U.S. president to take his trade show

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U.S. President Donald Trump has managed to achieve what was only recently deemed improbable—a trade deal with Mexico and Canada. If the new trilateral agreement is ratified, the substance of NAFTA will have been saved, in a manner that all three countries can live with.

Now, deals in Europe and potentially the Pacific beckon. They are the most probable places. Indeed, he already has negotiations underway with both areas.

If Trump ends up cementing trade deals with Europe and with the Pacific, he will go down in history as one of the great trade statesmen of the last 100 years. That would be an extraordinary turn of events, after two years in which the media consensus has been that he is out to destroy the international trading system and the entire world order.

It would also go far toward securing his re-election, as it would underpin the U.S. economic boom, after the boost from the massive tax cuts begins wearing off.

On the other hand, if Trump fails to redeem and complete the work on the Atlantic and Pacific trade deals, he will go down in history as mainly a destroyer of trade. It would do major damage to the U.S. economy and to his electoral prospects.

The choice is his. For now, the momentum of his efforts is going in the right direction.

### Europe

Trump and the EU began trade talks at a July 25 summit, where he and EU chief Jean-Claude Juncker celebrated a rare case of brotherhood and, on the strength of their personal relationship moment, initiated negotiations for free trade in all industrial goods except autos.

Trump is already invested in the eventual success of these talks, given that he is touting these talks at his rallies as evidence of the success of his efforts.

For these talks, Trump chose the banner-headline approach, calling it a “free trade” area with “zero tariffs, zero non-tariff barriers, and zero subsidies,” instead of the detail-based, standards-harmonization approach used in the slow-moving talks under Obama on a Trans-Atlantic Trade and Investment Partnership.

Plenty of details are still needed, to be sure. Wilbur Ross noted that the current talks have the advantage that they don’t have to start from scratch, since they will build on what was already worked out for the TTIP.

### The TPP

Trump is also negotiating with Japan. He has even spoken several times of rejoining the TPP. It is doable, although not as easy as shaping a deal from the inside would have been.

The other 11 countries have gone ahead with the TPP, while carefully holding the door open for America to rejoin. Their main motivation in readmitting the United States to the deal is to strengthen their hand vis-a-vis China, which has no qualms to act



unabashedly as the region’s domineering economic juggernaut.

Can Trump save the TPP by revising and reviving it, as he did with the North American Free Trade Agreement? The new North American agreement makes it in fact easier to rejoin the TPP, and at the same time to revise it and give it a different name.

Importantly, the spirit of Trump’s alterations to NAFTA can be applied. Trump gave assurances in a clear form where they were most needed: To American workers, on

wages, by the minimum wage provision for the Mexican auto industry.

In a TPP agreement including the U.S., a different reassurance is needed: That China is not going to be brought into the TPP. The foolhardy policy of previous U.S. administrations—to let China into the World Trade Organization, to focus on giving reassurances about the TPP to China, instead of to American workers—is not to be repeated.

Indeed, contrary to that earlier talk, and to Chinese requests, China’s joining of the TPP

is a totally unrealistic idea for the present era, if only because it would require ratification by every TPP country, a sufficient number of which would surely veto it.

This would also heal fragile American souls. The reassurance that most Americans need is that China is not going to be part of the TPP.

Mind you: Not this China. Not a China controlled and directed by the Chinese Communist Party. Not a China that controls its people in Orwellian fashion. And not a China that cunningly uses pseudo-market mechanisms to bolster its economic might, while cutting out foreign partners from enjoying anywhere near the same economic access inside China.

Finally, not a China whose leaders demand commercial kowtowing as an imperial right around the globe. That means no China in the TPP is imaginable in this era.

Trump is the most convincing person around for delivering this message. Were he to get this written into the introductory areas of the text of the TPP, it would be the main change needed before re-signing and ratifying.

### China

This is a much dicier situation. The talks are semi-underway, but going badly. China’s mercantilist policies, and its massive as well

as systematic use of deception, cheating and theft of intellectual property and security secrets, make it hard to reach a sound deal.

Trade deals simply work better among allies. Deals with adversaries such as China are needed too, but must not be rushed carelessly.

### A globalist nationalist?

The scenario mapped out above points to a duality that has always been present in Trump’s nationalism. Effective international leaders often begin by winning their nationalist spurs.

However, when they want to shape world events, more is needed. Trump has given hints in that direction.

Back when Trump was deciding to renegotiate NAFTA instead of canceling it—the latter being the approach that Steve Bannon wanted—Trump said he was both a “nationalist” and a “globalist” and would make the necessary decisions between them.

He may be able to pull that off, to the Democrats’ ever-lasting dismay. For as much as they paid lip service to protecting U.S. workers, the effect of the policies they pursued—and the outcome of their dealings with China—was the opposite. Just ask Bernie Sanders, Elizabeth Warren, the AFL-CIO and the anti-trade U.S. NGOs, like Lori Wallach of Public Citizen’s Trade Watch.

If Trump does pull it off, the international trading order will not only be upgraded commercially, but rendered more sustainable politically than it has been in decades.

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## A Nobel reminder of why research matters so much

Economist Paul Romer shows new discoveries create a virtuous cycle of growth

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The 2018 economics Nobel prize went to Paul Romer and William Nordhaus, an extremely deserving pair of economists. In addition to honoring two scholars whose contributions have deeply influenced their field, the award points to a crucially important issue that the world is beginning to give short shrift—economic growth.

Growth in rich countries’ living standards has slowed during the past decade.

That’s bad news. Of course, it’s good for people in the United States, France or Japan to have higher living standards. But rich-country growth is also crucial for poorer nations. When they’re growing faster, rich countries have more purchasing power with which to buy poor countries’ products.

Even more importantly, rich-country growth means that the living standards of

people in places like India or Vietnam can rise without threatening the livelihoods of the middle classes in developed nations. Growth is what allows the world economy to avoid the kind of zero-sum game in which begging one’s neighbor is the only way to improve a nation’s material well-being.

So why are rich countries growing so slowly? Part of it is due to the lingering effects of the Great Recession, but part is due to a slowdown in the rate of productivity growth.

Productivity is any economy’s long-term underlying engine of growth: once you put all of a country’s people to work and provide them with as much capital equipment as they can use, further growth depends on the efficiency with which they can create goods and services—i.e., on productivity.

In poor countries, productivity can be increased relatively rapidly, by copying foreign technologies and ways of doing business. But for an industrialized nation, further gains must come from hard-won improvements in technology, business methods or government policy. In the long run, technology is the driver—even the most well-run country in 1920 wouldn’t be particularly rich by modern standards, due to all the innovation that has happened since then. The invention of automobiles, televisions, and

other consumer technologies is only part of the story; improvements in production processes, materials and information technology allow products to be made more cheaply and better than before.

The problem is that no one really knows how to increase the rate of technology growth. Some free-marketers are hopeful that simply getting the government out of the way of innovation will do the trick. Others think that fiscal and monetary stimulus can induce companies to spend more on upgrading their technology to meet the needs of a boom. But the global uniformity of the productivity slowdown, despite differences in regulatory systems and stimulus policies across various developed countries, means that we should temper our expectations for these measures.

There is, however, a third option—spend more money on research. This is where Romer’s work comes in. In a pair of famous

papers, the first in 1986 and the second in 1990, Romer laid out a mathematical model in which research spending generates new ideas, leading to economic growth, which provides the resources for yet more research spending, generating a virtuous cycle.

Testing these mathematical models is very difficult. But there are plenty of success stories in which government funding has helped give birth to transformative technologies, especially in the U.S. Nuclear power, hydraulic fracturing, the internet, global-positioning systems, mobile phones, and lithium-ion batteries are just a few examples. Many of these advances have come via special-purpose initiatives like the Department of Defense’s DARPA, while many others come from government funding of basic research at universities and national laboratories. Reading the history of these successes is like watching Romer’s math take physical form.

Technology is also the key to combining economic growth with environmental sustainability. Nordhaus, the co-winner of the Nobel mainly for modeling the economic impact of climate change, has argued that ensuring the long-term sustainability of industrialized economies requires finding ever-more efficient ways to use the planet’s resources, largely through improvements in

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Economist Paul Romer, co-winner of the 2018 economics Nobel Prize, has studied the way innovation drives prosperity and has looked at ways to encourage it. AP

environmental technology.

In recent years, however, the U.S. has dropped the ball when it comes to research spending. Federal research spending as a percentage of gross domestic product has fallen.

Since 2010, the trend has gotten worse, with spending falling outright. Meanwhile, the U.S. as a whole, including private companies, spends less of its output on research than Germany, Japan or South Korea.

This is exactly the wrong direction for the

country. As growth slows and productivity stagnates in the rich world, Romer’s insights are more important than ever. For the world to avoid stagnation and zero-sum thinking, continue uplifting the global poor and improve environmental sustainability, the U.S. government must spend more, not less, on the technologies of tomorrow.

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Banksy’s painting “Girl with Red Balloon” is seen shredded after its sale at Sotheby’s auction in London on Oct. 5. INSTAGRAM/@PIERREKOUKIJAN/INSTAGRAM/@SINCIFINEART/VIA/REUTERS

## Why Banksy’s art stunt is economic genius

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Based on experiments conducted by himself and others around his work, Banksy, the famous street artist, could write an economics dissertation on the monetary value of art. In a way, that unwritten paper could be his crowning achievement.

The self-shredding stencil of a girl letting go of a heart-shaped red balloon, which made headlines over the weekend, was only Banksy’s latest contribution to the empirical study of the value of art.

With his latest stunt—the shredder embedded in the frame was turned on remotely after the hammer fell on a \$1.4 million sale—the spray-painting star tested the nature of demand at the high end of the market.

The result likely will be that the artwork’s clever partial destruction (the lower part of the picture now hangs prettily out of the frame, evenly cut into narrow strips) will only increase its value, since the happening was so public, and the stunned reactions of people in the auction room have been cap-

tured on video. Now, we have the auction price before the shredding—and we’ll likely see a higher post-shredding price, too, putting a clear, separate market value on the story behind the object, something notoriously difficult to do, more difficult even than pricing pure performance art.

Banksy is probably the only artist in history for whose work such a wide range of market prices, from less than zero to millions of dollars, has been documented.

When he started out, his work was sometimes seen as vandalism and painted over like any other graffiti, implying a negative value. This still happens on occasion: last month, the new owner of a shop in Bristol started painting over an early Banksy work, stopping only when he was told of its provenance.

Eventually, people started lifting Banksy work off walls and selling it, sometimes for hundreds of thousands of dollars; on a trip tracking Banksy’s stencils in Palestine, I heard the story of a building owner who made more money that way than if he’d sold the house.

But Banksy hasn’t just accepted this irony of stardom as a stroke of luck or as assertion

of higher justice. He’s studied it.

In 2013, the artist set up a stall in New York’s Central Park, where a bored senior citizen peddled signed originals, worth tens of thousands of dollars at auction, for \$60 apiece. No one bought anything for hours; he made a grand total of \$420 in a day. The reason, of course, was that to the passers-by, people who had never heard of Banksy or didn’t believe he’d sell his work so cheaply, there was no story behind the images.

If Banksy were an economist rather than a satirical street artist with clearly leftist views, he might have wrapped his findings into a model—perhaps like the one described in Moshe Adler’s purely theoretical 1985 paper that sought to explain “why a hierarchy in income could exist without a hierarchy in talent.”

The main argument was that the phenomenon of stardom exists where consumption requires knowledge. The acquisition of knowledge by a consumer involves discussion with other consumers, and a discussion is easier if all participants share common prior knowledge. If there are stars, that is, artists that everybody is familiar with, a consumer would be better off patronizing these

stars even if their art is not superior to that of others.

It’s not often that one finds a star willing to contribute as knowingly and creatively to this theory as Banksy does. “When you look at how society rewards so many of the wrong people, it’s hard not to view financial reimbursement as a badge of self-serving mediocrity,” Banksy once wrote. Contentment can be a strong motive for exploration.

In a way, it’s a shame the images can no longer be separated from the economic experiments. Once upon a time, they were fresh and surprising—and made better tattoos. Now, you’d need to be Justin Bieber to get one of the balloon girl.

But perhaps it’s best to accept it that Banksy’s true talent is less in his painting (or, rather, stenciling) than in revealing the ways in which the world interacts with art and artists. The body of bittersweet knowledge he’s building up will be his legacy when the last of his stencils fade from walls.

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