Why Globalism is Doomed

The Bank for International Settlements (BIS), the international body based in Basel, Switzerland that represents the world's central banks, claims in its latest annual report that globalization is a "scapegoat" for rising inequality, as it launches a defense of closer cross-border ties and integration.

You didn't get a copy and read every word of it? Well, the news might have been tucked away on the back pages of your local newspaper. It certainly didn't make it to the big screen in your living room.

Here's the gist: the bankers are worried. *Very* worried.

Truth is, globalization is ebbing while economic and political populism is surging. Globalists no longer provide the accepted set of rules for the political and economic order. Transnational, multilateral, and supranational organizations and their networks, experts, and regulators are everywhere on the defense. Cosmopolitan and globalist values are not ascendant.

As a matter of fact, national sovereignty is back and growing stronger, week by week, month by month. We see it most clearly in President Trump's principled realism, called "America First."

Like the 19th century version of populism that rallied against the gold standard, today's economic populism is similarly anti-establishment, anti-elitist, and opposed to all forms of globalization and globalist governance.

Economic history and economic theory *both* provide strong reasons to suggest that the advanced stages of globalization are proof statements for the populist backlash, in both its right- and left-wing variants, and everywhere from Brexit and the Trump election to current European politics and unrest throughout Latin America.

Whether along *ethnocultural* cleavages or along *income-class* lines, these forms of populism are a predictable and logical result. It should surprise no one, including globalists, that the pendulum has swung so far in this direction.

In fact, analytically there are two sides to populism: *demand* and *supply.* Economic anxiety generates a base for populism but does not determine its particular political narrative—that storyline is left to various populist politicians and movements, which are on the rise today, worldwide. National greatness in one place does not diminish it in another place. There is no reason why all nations cannot articulate their individual greatness and in their self (national) interest interact in the world in a more peaceful and benign fashion.

Actually, it is the economics of trade and financial integration that provide the politically contentious backdrop to all globalization. Trade theory, such as the well-known Stolper-Samuelson theorem, shows that there are sharp distributional implications for open trade—in other words, free trade is not a "win-win." Losers are inevitable.

And those who lose are generally low-skilled and unskilled workers. Trade liberalization raises the domestic price of exportables relative to importables. Go to any Walmart, if you want to check out this phenomenon first hand. Where is everything made?

There is an inherent form of redistribution at work here—the flip side of the benefits of trade. Overall as globalization advances, trade agreements themselves become more about redistributing and less about expanding the economic pie. The political fallout is clear: globalization, the opposite of national interest, has become more and more contentious, if not unsustainable.

The empirical evidence bears this out. From NAFTA, which has cost the United States some $3.5 trillion over the last decade, to the widening U.S.-China trade deficit, the American economy has enjoyed few overriding efficiency gains from globalization. What we have, instead, are large trade imbalances, income stagnation among middle earners, and other nasty social side-effects. Talk to any middle-class family or visit any town or factory in the affected dire areas and you can gain first-hand knowledge, up close and personal.

The overall benefits of globalization are zero to negative. Trade was supposed to be based on reciprocity and growth, but it turned out to be a sham.

Have those "left behind"—the "forgotten silent majority," in Trumpian terms—been compensated from the clear effects of globalization? No, not really.

The benefits of international trade as originally argued by Adam Smith and its subsequent canonization ignores important historical differences. A displaced worker in our modern technological age (unlike a day-laborer or farmer in the 18th century) already has a home mortgage, car payments, tuition for his children, and lots of other overhead. Merely switching careers or retraining is not so simple for many people. Truthfully, it is more than difficult, especially for middle-aged workers who have generally worked one job and in one place.

The share of U.S. imports in GDP went from less than 7 percent in 1975 to more than 18 percent in recent years, but the imbalance has provided little of what's called trade adjustment assistance.

Why? Because it is *very* costly—and politicians on all sides of the spectrum make a lot of promises they simply do not keep.

All economists know that trade causes job and income losses for some groups. Those same economists deride the notion of “fair trade” as a kind of fiction, but that’s clearly not the case as we see with anti-dumping rules and countervailing duties. These are dubbed “trade remedies” for a reason. And don’t forget what might be called “*social* dumping”—where one country literally dumps its unemployment potential elsewhere or subsidizes inefficient production forever, regardless the cost.

But what about operational mobility and the so-called benefits of financial globalization? The distinction between short-term, “hot money” and financial crises and long-term capital flows, such as foreign direct investment, is significant. One is disruptive, the other enhancing. One is patient and the other imprudent. So why is it that the timing of financial globalization and the occurrence of banking crises coincide almost perfectly?

Recurrent boom-and-bust cycles are familiar to less developed countries, but now appear to have spread to the European Union and the United States. Financial globalization has, like trade, exerted a downward pressure on the labor share of income.

Has anyone ever heard this line? “Accept lower wages, or we will move abroad!” The other week, I met a gentleman in Ohio who ran a large battery-manufacturing unit there and had recently moved, as the boss, to Mexico. I asked him about the thousands of workers in Ohio. “They are gone,” he said. “We hired far cheaper Mexican ones in Juarez at just a fraction of their hourly wage.”

Those with lower skills or qualifications are the least able to shift or move across borders and are most damaged by this sort of risk shifting. But soon, so too, will be the accountants, architects, engineers, software developers, and every other white-collar worker.

It has also become harder to tax global mobile capital. That is because capital moves to the lowest rate tax haven and uses transfer pricing to disguise profits. Taxes on labor and consumption are much easier to collect, and they have gone increasingly up and up.

Globalization, we were told, had a big upside. This is the bill of goods the public has been sold for decades. In fact, globalization has *only* helped the few: exporters, multinationals, and the large international banks, as well as certain professionals and the very top management.

It surely helped some countries, such as China, which rapidly transformed peasant farmers into low-cost manufacturing workers, thereby reducing poverty. But all those jobs were at the cost of "old jobs" in America's Rust Belt. In effect, globalization was a definite and planned wealth transfer from one place to the other, which has gone largely unreported.

There is another side of the not-so-glossy globalization coin: increased domestic inequality and exacerbated social division. The benefits and monetary flows sold to the unknowing public turned out to be all one-sided and went *exclusively* to the very highly skilled, to employers, to cities, to cosmopolitans, and to elites—*not* to ordinary working people.

The United States and Europe have been ravaged by financial crises, decades without a raise in pay or the standard of living for the masses and by the effects of austerity—while the few got richer. Globalization gutted the existing social contract and ushered in a stigma of unfairness—in what is called "a rigged system."

The playing field was hardly level. The winners took *all* and Goldman Sachs bankers always seemed to come out on top, whether they were selling distressed mortgage debt or shorting it (sometimes simultaneously).

In the end, the economics of globalization and of globalist agency are, we have discovered, not politically sustainable.

Economic integration (in the EU or globally) has definite and unacceptable real costs that the people cannot and will not bear. This explains the rise of economic and political populism.

Economic populism and its political cousin, political populism, are a necessary antidote and a reality check to excessive globalization and globalist values and institutions. BIS be wary.

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