

We need to curb hyper globalization,  
partly to protect liberal democracy

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December 2016

# Argument

- Liberal democracy is under threat. “Illiberal democracy” is surging in many countries
- To protect liberal democracy we must “reset” today’s “hyper globalization”
- Why and how?

# Liberal democracy

- “Liberal democracy” unites 2 somewhat opposed principles:
- (1) liberalism = rule OF law (not rule BY law),  
(2) democracy = system in which elected representatives of citizens make collective choices (as distinct from the market system of collective choices), who are accountable to citizens

# Illiberal democracy

- We are seeing surge towards illiberal democracy.
- Freedom House: World average scores on civil & political rights increased from 1970s up to 2005. Then fell every year till today, 11 years later
- Leading exponent: Putin. Very popular with citizens at large. He and his machine not bound by law: use political power to enrich themselves and stay in power

# More illiberal democracy

- Hungary PM Orbán, explicitly creating “illiberal state”. 2014 his party won supermajority, now changing Constitution to centralize power in PM. Stopping media outlets & NGOs not under govt control
- Erdogan’s Turkey. Thailand.
- Modi’s India, Abe’s Japan moving towards “closed nationalism”: emphasize ethnic purity, foster intolerance of “others”

# Why illiberal democracy?

- Many electorates have become more polarized b/w liberal, cosmopolitan urban elite, and less-educated, more rural popns, which support illiberalism
- Rulers rely on latter for their strong “democratic” support

# Western electorates similarly polarized

- Support for Brexit came mostly from economically depressed parts of England and Wales, and from people without college degree
- Support for Trump came from similar depressed regions and people without college degree

# More on US election 2016

- Both Trump & Clinton used anti-globalization rhetoric
- Trump's rapturous support largely white males without college degree, who feel betrayed by "the establishment" & "globalization". His career based on by-passing rule of law to extent possible, when expedient for growing his financial fortune. Pledged to undermine many checks & balances of liberal democracy.

# Trust in politics in established democracies

- We assume that once well institutionalized, liberal democracy robust.
- Not so.
- In established liberal democracies, trust in politicians, party membership, electoral participation, has fallen for years

- In many countries (inc. US, UK, Netherlands, Sweden, Australia, NZ), % who say it is “essential” to live in democracy has fallen steeply in past decade
- Share of Americans who say army rule would be “good” or “very good” thing was 6% in 1995, 17% in 2014. (Yasha Mounk and Roberto Stefan Foa, reported in Amanda Taub, 2016, “How stable are democracies? ‘Warning signs are flashing red’”, New York Times Nov 29. )

“If govt incompetent or failing to do its job, would military take-over be illegitimate?” % yes

	US	EU
Older	43	53
Millennials	19	36

# Sources of surging populism & nationalism

- People's frustrations with globalization, loss of identity & moral certainties, fears of terrorism & floods of refugees
- People blame globalization for sense of loss of control over their lives (eg for employment insecurity, income stagnation).
- Politicians often protect themselves from citizen anger by blaming **impersonal globalization** rather than the political class

“When will they [global elites] ever learn...?”

- The surprise is that the “populist” backlash took so long to materialise.
- Backlash driven by catalogue of policy mistakes: deregulation of financial markets → subprime crisis in US; flawed eurozone → stagnation, high unemployment; Schengen open borders → migration crisis; little response to rising income inequality; ....

# Hyper globalization in need of reset

- For decades, global elites have pressed for more “integration” of all countries into world economy, saying: “optimum integration for each country is maximum integration”.
- Martin Wolf, 2004, *Why Globalization Works*: “tragedy of our world is not that there is too much globalization, but that there is too little”
- But gains of some from globalization not much comfort to losers, especially where social protection weak (eg US)

# US public policy substantially shaped by preferences of top 1%

On public policy issues where preferences of top 1% differ from those of median voter, US public policy reflects preferences of top 1% “almost 100%”.

Top 1% not keen on paying taxes which finance re-distribution into social protection

Keen on fiscal “austerity” & (asset-price-boosting) loose monetary policy in recessions

See Martin Gillens, *Affluence and Influence*

# Example of hyper globalization: ISDS

- Trade agreements, BITs, contain requirement that host govt accepts ISDS = Investor-State Dispute Settlement
- Enable MNC to sue govts for causing them losses due to legal or regulatory changes. Eg Philip Morris sued govts of Australia & Uruguay for restricting cigarette advertising.
- Cases decided by extrajudicial tribunals of 3 lawyers, in secret
- Originally justified as necessary to protect MNCs from nationalization or expropriation. Now used to protect MNCs on much wider grounds
- Consistency of a law or policy domestic law is no defense against claims
- Blatant conflicts of interest within the pool of arbitrators & advocates (same person may be one, one day, and the other, the next day)
- No (meaningful) appeal
- ISDS especially bad for SMEs, b/c favor big companies. Average cost to corporations of bringing a case = \$ 8 mn
- India, Indonesia, Ecuador & others have advised treaty partners that they are considering withdrawing from ISDS

# Is Trump right to stop TTP, NAFTA, etc?

- Trump says that US trade deals have cost millions of jobs. By stopping the trade deals, he will bring manufacturing jobs back home
- Mostly nonsense. Since 2000 US mfg lost 30% of its jobs, while mfg output increased – thanks to technological advance
- Mfg remains vital to US economy (eg accounts for 70% private R&D). But will provide fewer jobs

# Population changes will intensify closed nationalisms

- UN “World Population Prospects: the 2015 revision”. “Medium” projection
- World popn, 2015, 7.4 bn, 2050, 9.7 bn
- Africa population will more than DOUBLE b/w 2015 & 2050: from 1.2 bn, to 2.5 bn
- More than half of world increase, in Africa:
- Europe popn will FALL: 2015, 738 mn, 2050, 707 mn
- Massive disruption ahead!

# What to do? (1) Refocus on mass interests

- Now, international dialogue needs to focus on how to achieve a fairly open world economy, but less oriented towards global elites & more towards mass interests (eg more priority to employment than inflation, much more investment in vocational training, maybe state “employment-guarantee schemes” as distinct from income grants).

## (2) Rethink ISDS

- Eliminate ISDS, except in narrow circumstances (eg in countries where threat of government expropriation of MNC assets is real)

### (3) Exchange rates & capital controls

- Following spirit of Keynes at Bretton Woods, create a system for international cooperation on exchange rates & capital controls (call it the “Bresser Pereira”)

## (4) Pre-distribution

- To reduce inequality, give more attention to pre-distribution of income & less to re-distribution through state
- Create institutions so that a large % of the population gets income “while they sleep”, out of the returns on ownership of capital.
- Eg trusts could be created which borrow on capital markets, buy shares in companies, receive dividends, repay loans, & distribute balance to members. Members = employees, consumers, neighbors, etc.
- See J. Meade *The Property Owning Democracy*

## (5) Rely less on central banks

- Fiscal policy paralysis has hurt middle & lower classes hard
- Politicians rely on central banks to spur higher & inclusive growth. But lowering interest rates & boosting money supply have had only weak effects on supply-side and demand-side
- Now, about 30% of stock of global govt debt traded at negative yield!
- Yet stock markets have soared! (Who owns most stocks?)
- So, reduce reliance on monetary policy, increase use of fiscal policy (tax reform, infrastructure)

## (6) Electoral finance reform

- Cross-country (OECD) evidence shows positive correlation b/w the degree of public financing for electoral process (media, parties) and % of GDP spent on “social protection”.
- US has least public financing, therefore candidates & parties depend entirely on private donors. Wealthy donors not keen on social protection.
- But, little political party interest in electoral finance reform. Eg UK: Committee on Standards in Public Life, 2011, “Ending the big donor culture”. Died on night of release

## (7) Still more ideas

- Cut back on tax sheltering. Hundreds of billions of tax dollars are being lost each year, more than the gains from trade agreements
- Establish global minimum standards on labor standards, environmental protection, bank capital requirements (with *independent auditing* of banks' calculations of capital base, not done now)

## (8) Change language

- “Globalization” now countered by “anti-globalization”: either/or. Need a positive word in-between: eg “interdependence”
- Need distinguish between “bad” & “good” nationalisms. So, “aggressive nationalism” and “responsible nationalism”.
- “Interdependence” & “responsible nationalism” sanction considerable “policy space”, especially important for developing countries now subject to West pressure to adopt uniform “Washington Consensus” set of policies & institutions as though the single best recipe for economic development.

# If we do not reset hyper globalization?

- We could be heading for repeat of early 20<sup>th</sup> century conflicts b/w closed & aggressive nationalisms.

**END, THANK YOU!**