

Is Globalisation Doomed?

Antimo Verde

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The Economic and Political Threats
to the Future of Globalisation

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To Anna, Daniele and Stefano

Preface

Why This Book?

In 2013, a book of mine about globalization came out.¹ In it I argued that globalization was doomed to slow down. When speaking specifically of “slowing down,” but not a “reversal,” I referred to a cleavage of certain qualified elements of globalization, having to do, for instance, with limits to the freedom of people to move from one country to another, or trade restrictions or controls on financial movements.

In 2013, the slowdown thesis was not shared by economists or politicians—it was then absolutely new.² Today, things have changed dramatically: Economists and experts often speak of “broken globalization” or use similar phrases.

Anyway, in my 2013 book I examined *why* the slowing down of globalization would have to take place. But absolutely nothing was said about *how* it would have to happen: no *mechanism* was envisaged to explain globalization’s braking.

The objective of this book is to expound this mechanism, which was lacking in the 2013 volume. The pillars of the mechanism are identified through answering the following questions:

1. *Who* among the actors in globalization is more penalized by globalization, and so would have an interest in stopping or eliminating part of it?
2. *Which* factors justify their interests and potential reaction against globalization?
3. *How* could these actors organize this reaction in an effective way?

Related to these questions is that concerning alternative policy approaches.

In answer to question (1) it should be assumed that globalization produces winners and losers. The main losers are the *middle and lower middle classes*, particularly in the advanced countries as well as in *some* emerging countries.³

The evolution over time of the income distribution in Europe and the USA tells a long story of the weakening of these classes.⁴ In the USA the middle class has been “decimated” and things are not too different in Europe. This withering of the middle to lower classes has a number of causes, among them the following structural ones:

- Skill-biased technological changes.
- Demographic aging processes.
- Predominance of financial activities in the economy.
- Globalization.
- Exasperating and unfair competition from the emerging countries allowed by globalization.
- Delocalization of national systems of production abroad, as favored by globalization.
- Distributional impacts of monetary and fiscal policies, or at least those carried out because of globalization constraints.

The answer to question (2) is crucial, as it lead us to identify the reasons or problems pushing the middle class to oppose globalization. These are as follows:

1. Immigration.
2. Terrorism.
3. (Immoral) inequality or globalization.

We assume that these are not temporary, but destined to last at least a couple of decades. This is a realistic hypothesis for immigration and inequality. As regards terrorism, it is equally realistic if we deem the Islamic State (IS; Daesh) to be more than a state: it is an ideology too. All this suggests that the middle and lower classes will take a long time to react to the impact of the three problems (Fig. 1).

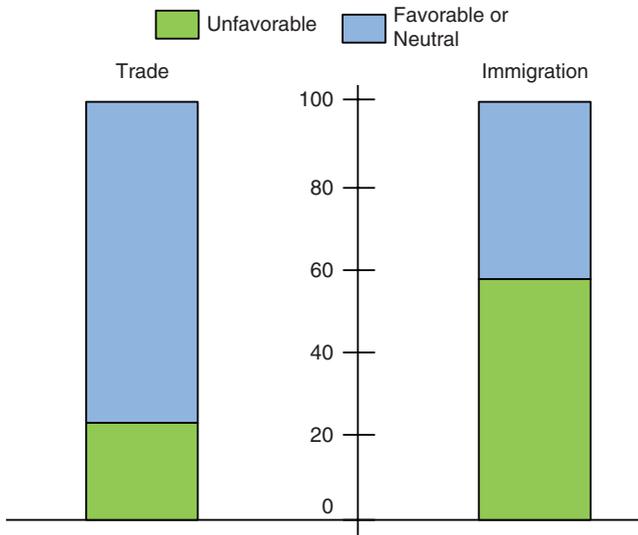
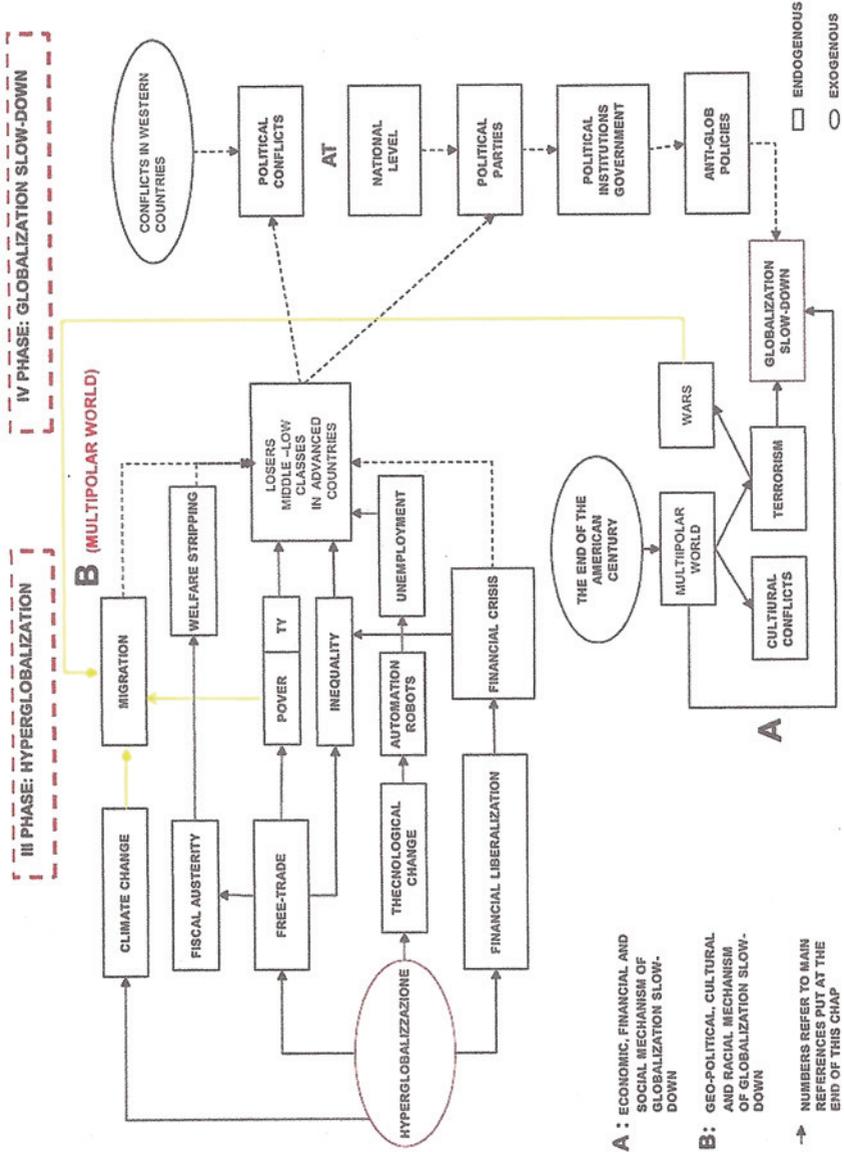


Fig. 1 Attitude toward trade and immigration: Selected Advanced Economies, 2014 1/(%, average). Sources Pew Research and Gallup data for United States. 1/ Selected economies include France, Germany, Greece, Italy, Spain, United Kingdom, and United States

Points (1) and (2) are particularly relevant not only for Europe, but for the USA too.



In particular, unskilled labor forces are worried about immigration, perceiving it as bringing with it high risks to jobs and wage levels.

The link between Islamic terrorism and the middle class's anti-globalization sentiment is not obvious. But terrorism thrives amid racial and cultural clashes between advanced and Islamic worlds. So, while terrorism can be deemed to be certainly a problem for *security* reasons, it can also be included among the main problems of the middle class because it is top of the public opinion surveys of people's fears (along with immigration). Moreover, this problem is to some extent also linked to immigration, as people see the risk that migrant routes could be a channel to introduce terrorists into the Europe.

To immigration and terrorism we add (immoral) inequality as a further reason for the anti-globalization sentiment of the middle and middle-lower classes, because it has reached an immoral level and people in Europe and in the USA understand it to be produced by globalization. In fact, many aspects of globalization—technological changes, unfair free trade, delocalization, the reduced role of trade-unions—are responsible for rising inequality. It is always true that rising inequality is intrinsic proof of the lowering of the income share of the middle class.

Finally, I here refer to *immoral* levels of inequality both because they are the current ones and because a lower level of inequality would be publicly acceptable (Keynes 1936, ch. 24).

Let's pass to the third question of how the middle and lower classes can organize their opposition to the process we call globalization, once they consider immigration, terrorism and inequality to have reached intolerable levels. In this case the starting point is that the losers from globalization do vote, and that they may use their votes to protect their interests.

In this vein, we focus on the political representation of middle-class interests. It is assumed that people belonging to middle and lower classes will make contact with *national* parties in order to get the elected bodies to share their interests, thus inducing them to change national policies in an anti-globalization way.

The middle class usually form the majority in national electorates. It is easy to imagine that the protection of their interests could lead to a change of the political picture as a whole, towards stances that are *in their favor*.⁵ This is particularly true when the political class is weak.

The thesis of this book rests on the hypothesis that the middle and lower classes are in a condition to affect the future of globalization. In particular, they will be able to force globalization to slow down.

As we will see in Chap. 2, a slowing down is already evident. By developing a new globalization index, which is a very important by-product of this book, it is shown that this slowdown took place in 2012–13 and 2015.

Finally at this point one question could be: are there alternatives to the anti-globalization policies to protect the middle classes? The answer is theoretically, yes, and the main policy instrument would be fiscal policy. This policy could be used to compensate the losers from globalization with adequate tax cuts in favor of people belonging to the middle class. But it is only a theoretical hypothesis, posed for intuitive reasons.

On the other hand, we can assume the *secular stagnation hypothesis*, which characterizes the current economic stance of the advanced world. This hypothesis favors immoral inequality as it reduces the possibility of using fiscal policy. Moreover the use of fiscal policy to this end brings with it a tendency of politicians to enlarge the definition of middle class,⁶ making such a policy unfeasible in practice.

The conclusion is that if there is a lack of serious alternatives to putting brakes on globalization, then the thesis of this book gains ground: The slowdown of globalization will be an inevitable scenario if the middle class are be able to achieve the political protection of their interests. This protection will be able to throw “sand in the wheels” of globalization.

What remains now for this book is how to introduce this mechanism, and that is the focus of what follows in this chapter.

The Plan of the Book

This book is divided into three parts. The next part, comprising the two chapters after this one, concerns the definition of globalization and its phases. The objective here is twofold: first, to stress the interaction between political-institutional and economic aspects in the evolution of globalization—this is the task of Chap. 1; second, to identify the three

phases of globalization to be confirmed by a new globalization index—this I will expound upon in Chap. 2. This definitional work is valuable because it enables a new globalization index to be obtained using principal component analysis (PCA) in an original way.

The most important index—the *globalization index*—shows the evolution of the integration process and confirms that the slowing down of globalization was already evident in 2015, as well as in 2012–13. For sure, this was not due to the middle-class reaction, as envisaged in this book, but it allows us to conclude that the analysis is on the right track.

The second part, Chaps. 3 and 4, investigate two of the three problems which will push the middle and lower classes in the search for the political protection of their interests, in terms of jobs, wages and security. In this part we deal with migrations (Chap. 3), and inequality (Chap. 4)

The third and final part of the book, Chap. 5 and 6, address primarily international and political problems. Chapter 5 deals with the Islamist problem, Chap. 6 dwells in detail on the process of political representation—that is, the political protection of middle-class interests. The last section in Chap. 6 focuses on some concluding remarks.

The starting points of our analysis can be allocated in the aftermath of the two crises : the global financial crisis (2007–10) and sovereign debt crisis (2010–13). We can add to these another pair of crises stemming from the dramatic problem of migrants and refugees since 2014, which are considered in Chap. 3. In light of this problem, we cannot be completely sure that we have not yet slipped into a new, and somewhat less fortunate, fourth phase of globalization. If this is the case, the doubts about the future of globalization expressed in these pages are well founded.

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Notes

1. A.Verde- La globalizzazione ripensata- Luiss University Press Roma 2013 It is here called the “2013 book” or (my) previous book.
2. See for all D. Rodrick (2011) who maintains that markets, sovereign states and democracy can't coexist. One option is to contrast democracy

to earn “market confidence” and attract trade and capital inflows. The second option is to limit globalization in the hope of building democracy at home. While on the opposite bank of the river, we find Martin Wolf (2004) who explains “why globalization, the great event of our time, works.”

3. With the exclusion of MLC of China, India and other emerging rich countries, like Brazil, South Africa and so on.
4. In this book, middle class (or bourgeoisie) usually include the lower middle class (small bourgeoisie) even if the latter is not cited.
5. Indeed parties that differ politically from those that globalization’s losers vote for could be sympathetic with them for fear of losing voters.
6. For instance Hillary Clinton uses a definition of middle class completely out of touch with reality: any household that makes \$250,000 or less a year! (cfr. Covert B. New York Times, 29 December 2015).

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