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Free Lunch: An awfully convenient fatalism



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Blaming globalisation allows leaders to abdicate responsibility



Donald Trump's proposals have been rejected by the Peterson Institute

If nothing else, the Brexit referendum triggered a change in rhetoric among world leaders. Since the G20 summit this month they have not missed a chance to insist they need to make globalisation work for the left-behind. That's fine talk, but how do you walk the walk?

The most frustrating fact about electoral politics just about everywhere is that the policies proposed for the benefit of the left-behind will do little to improve their lot and may well make it worse. That is true, above all, for trade. The Peterson Institute, in its assessment of the US presidential candidates' trade agendas, rejects Donald Trump's proposals. As the Financial Times reports, the study finds that if a president Trump put his ideas into practice, the result would be a recession and the loss of almost 5m private sector jobs (incidentally about the same number of jobs the US has lost since China joined the World Trade Organisation). Can anyone hope that this disruption would somehow benefit those already under pressure?

So if you care about the left-behind, don't heed their self-appointed standard-bearers. Listen instead to the most thoughtful critics of "actually existing" globalisation, such as Dani Rodrik, whose recent New York Times article deserves the attention it is receiving. But listen with caution.

Rodrik summarises his argument thus: "We must reassess the balance between national autonomy and economic globalisation. Simply put, we have pushed economic globalisation too far — toward an impractical version that we might call 'hyperglobalisation'." He then advances three principles. First, accept that countries may take different routes to prosperity, for example with larger or smaller

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autonomy”.

redistributive states. Second, let countries protect themselves against regulatory arbitrage, for example by restricting imports from places that undermine labour standards. Third, emphasise the “value of policy

These are good principles. But they do not necessarily lead to the policies that you might guess they would.

On different routes to prosperity, Rodrik says Britain “may tolerate, say, greater inequality and financial instability in return for higher growth and more financial innovation . . . [and] will opt for lower taxes on capital and more freewheeling financial systems”. It is hard to argue that either globalisation at large, or that past regional integration in the form of EU membership, has stopped Britain from doing precisely this. As for “freewheeling finance”, nor has EU membership prevented the UK’s switch from light-touch regulation before the crisis to best-in-class after it.

On preventing a race to the bottom, the irony of the moment is that this is what the most advanced form of international economic integration aims to achieve, often successfully. The EU’s single market is of course defined by minimum standards, and the European Commission’s competition ruling on how Apple avoids paying tax in Europe is a case in point. And if shallower trade integration elsewhere can be faulted for encouraging a whittling away of living standards, that’s exactly what new trade deals try to avoid. The Trans-Pacific Partnership, now badmouthed by Trump and Hillary Clinton, is not your grandparents’ kind of trade deal. It involves the setting of much more standard rules, including labour rights and environmental protections.

Policy autonomy is indeed the key value. It is the perception of losing control over collective and individual destiny that makes a slogan such as “take back control” so potent. But it is a mistake to think that valuing policy autonomy needs to mean “moderating” globalisation in the sense of undoing international integration. There are cases where having control requires more supranational decision-making. Surely one cannot believe that Europe’s refugee crisis, for example, will be better solved by nations acting more unilaterally and less collaboratively. Climate change is another case.

And often, the frustration experienced as loss of control has less to do with globalisation than is often thought. Technology and domestic policy choices have inflicted more suffering on the left-behind than trade and migration. Industrial jobs are disappearing in poor countries as well as rich ones, as Rodrik himself has documented, rather than being “stolen” from the latter by the former.

Rodrik adds a fourth principle: that “global governance should focus on enhancing democracy, not globalisation”. That is an important principle. But it should not collapse the all-important distinction between structures that allow democratic countries to agree and update collective policies against common challenges, such as the EU, and the much more troubling institutions designed to make democratic policy changes more difficult, such as the investor-state dispute settlement procedures common in trade deals.

Above all, we must recognise that the biggest threat to democracy may not be an erosion of national policy autonomy but that it is not being used, or is being used badly. Exaggerating the extent to which “hyperglobalisation” ties our leaders’ hands lets them off the hook for mismanaging the autonomy they have.

Other readables

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- More research on global inequality — three economists suggest relative inequality has been falling even as absolute gains are distributed increasingly unequally.

Numbers news

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