

Globalisation

There is no need to fret about deglobalisation

Politicians should focus on restoring the domestic social contract

Dani Rodrik



It is doubtful that the bicycle theory - which says if you stop moving forwards you fall off - is still valid © iStock

11 HOURS AGO by: **Dani Rodrik**

China, the slowing down of the world economy and the rise of political populism dominated the headlines during last month's G20 summit in Hangzhou, along with calls for "inclusive growth" and "[civilising capitalism \(http://next.ft.com/content/70732cf4-7368-11e6-b60a-d4532d5ea35\)](http://next.ft.com/content/70732cf4-7368-11e6-b60a-d4532d5ea35)". Amid indications that the pace of [globalisation \(https://www.ft.com/topics/themes/Globalisation\)](https://www.ft.com/topics/themes/Globalisation) has stalled, there were concerns that we may be entering an era of deglobalisation. Yet the leaders present did not seem to have many new ideas.

The past 70 years were a special period for the world economy that is unlikely to be repeated — at least not until serious adjustments are put in place. The factors that enabled a mutually reinforcing pattern of economic growth and expanding globalisation have been greatly weakened.

The social bargain in the advanced democracies that sustained a generous welfare state alongside economic openness has come undone. Trust in governments has declined, along

with their ability to manage their economies. The possibilities of easy industrialisation that fuelled Asia's economic miracles — most notably China's — have dried up. Immigration, trade and the free flow of capital have become hot-button issues.

Yet we should not fret too much about a reversal in globalisation. We should instead take it as an opportunity to redress the imbalance between global markets and national responsibilities.

Economists often picture global trade negotiations as akin to riding a bicycle. If you stop moving forwards, you fall off. From this perspective a collapse of the Trans-Pacific Partnership or the [Transatlantic Trade and Investment Partnership \(http://next.ft.com/content/46438dfe-7f50-11e6-bc52-0c7211ef3198\)](http://next.ft.com/content/46438dfe-7f50-11e6-bc52-0c7211ef3198) would be very worrying indeed.

But it is doubtful that the bicycle theory retains any validity today. Interests that favour economic openness — multinationals, banks, skilled professionals — might find themselves on the back foot but they still have considerable sway. The intellectual consensus in favour of openness is largely intact. Compared [with the 1930s \(http://next.ft.com/content/08760186-4a9f-11e6-8d68-72e9211e86ab\)](http://next.ft.com/content/08760186-4a9f-11e6-8d68-72e9211e86ab), an era with which parallels are often drawn, most countries have better safety nets for those who do not benefit from the gains from trade, and global institutions are stronger. And even populist politicians recognise the dangers of rampant protectionism. A comprehensive unravelling of the open, global economy we have today is extremely unlikely.

Instead the risk is that mainstream politicians will cling to an unsustainable model of hyper-globalisation and fail to seize the moment. The result will be inadequate, ad hoc responses that make it more likely that nativist politicians will gain ground, to the detriment of our economies and our democracies.

The frustrations of the middle and lower classes today are rooted in the perception that political elites have placed the priorities of the global economy ahead of domestic needs. Addressing the discontent will require that this perception is reversed.

If progressive tax policies to reduce inequality are impeded by the mobility of corporations around the world, it should be the latter that gives way, not the former. If countercyclical fiscal and monetary policies are precluded by short-term capital flows, it is finance that should be regulated.

If industrial policies to diversify developing economies are precluded by World Trade Organisation rules, it is trade rules that should be reformed. If domestic labour standards are eroded due to international competition with countries where workers have few rights, it is trade that should bear the brunt.

If foreign investors ask for special protections that shield them from the domestic legal system, the answer should be no. Above all, politicians should stop hiding behind globalisation. The case for structural reforms and other policies should be made on their own merits, rather than because of some putative need to “compete” in global markets.

Feeling the pressure from populists, mainstream politicians have modified their message on globalisation. But they lack credibility because their change of heart too often seems opportunistic rather than deeply thought through. Would [Hillary Clinton \(http://next.ft.com/content/c2d1c2ca-85e3-11e6-8897-2359a58ac7a5\)](http://next.ft.com/content/c2d1c2ca-85e3-11e6-8897-2359a58ac7a5), for example, have dropped her support for TPP if she had not been facing Bernie Sanders and Donald Trump as opponents? Politicians have to craft a narrative that restores the domestic social contract and puts it ahead of globalisation.

Healthier polities produce — and can withstand — more globalisation. A reassertion of the nation state may be inimical to hyper-globalisation but as long as it is made in the service of social inclusion, robust economic growth and liberal democracy, it will serve the needs of an open world economy quite well.

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