

GLOBALIZATION AND THE POPULIST BACKLASH

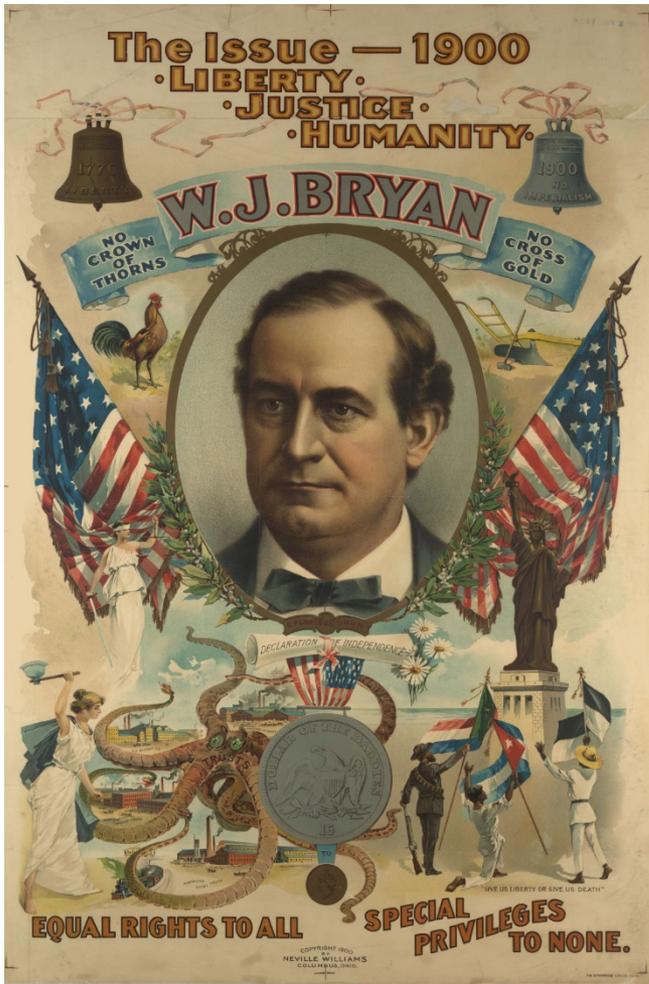
Dani Rodrik

February 2018

The globalization backlash in history



The long history of populism in the U.S.



“...we shall answer their demands for a gold standard by saying to them, you shall not press down upon the brow of labor this crown of thorns. You shall not crucify mankind upon a cross of gold.”

William Jennings Bryan
(1896)

Why does globalization foster populism?

- The demand for populism
 - distributional incidence of globalization
 - openness to trade
 - asymmetric international mobility
 - compensation?
 - not just incomes: fairness, values, justice
- The supply of populism
 - salient cleavages and framing
 - left- versus right-wing populism

1. Distributional impacts of trade openness

- What economics says:
 - reducing barriers at the border generally enlarges overall economic pie
 - with standard caveats...
 - but not everyone wins
 - less-skilled workers and import-competing sectors lose out
 - Stolper-Samuelson and generalization
 - and as trade barriers get smaller, redistribution looms larger compared to the magnitude of aggregate (efficiency) gains
 - efficiency gains of trade liberalization fall non-linearly with the square of the trade barrier, while redistribution is linear in the price changes
- Last point particularly important
 - as it helps explain why trade agreements become politically more contentious as trade and financial barriers get smaller

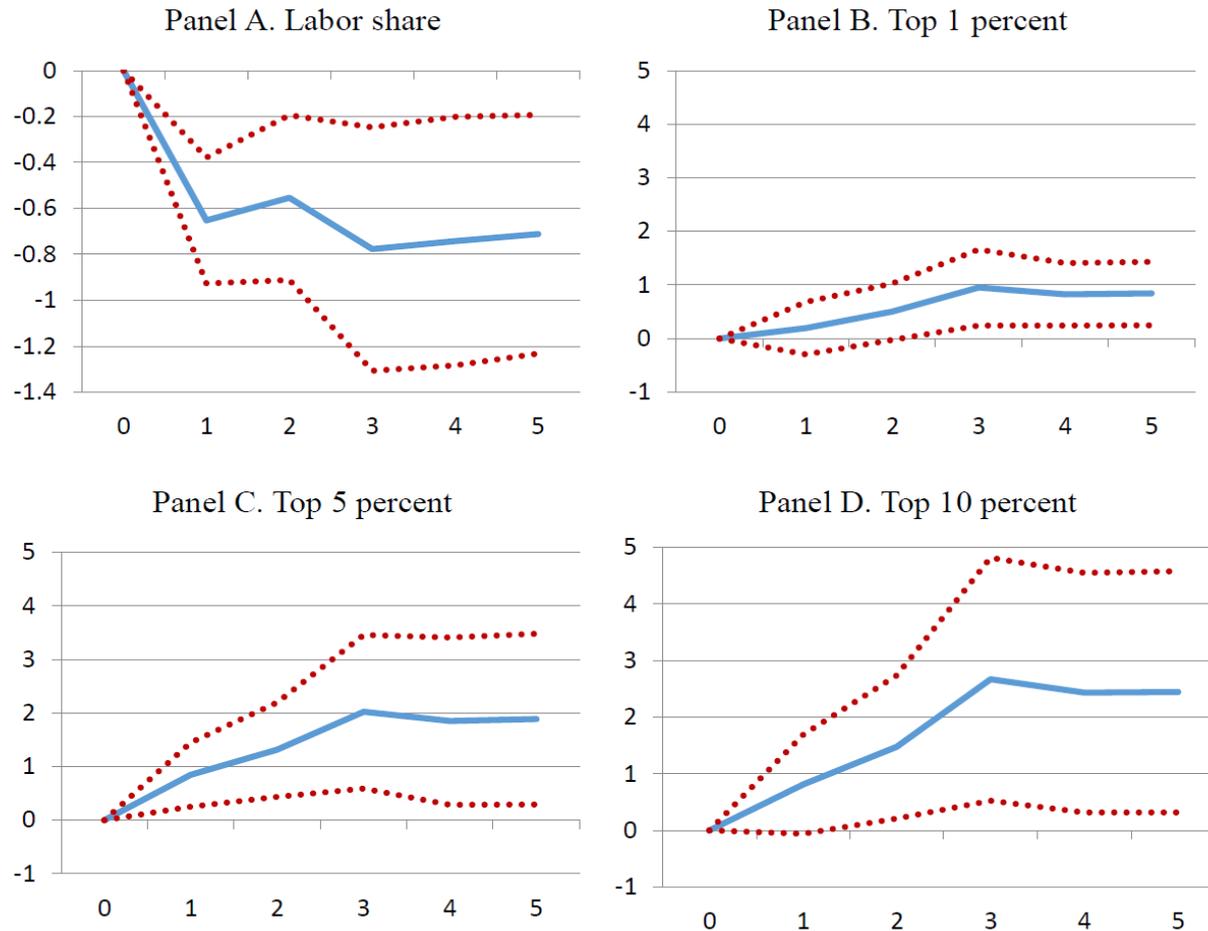
How much redistribution?

- Standard models suggest a lot
 - >\$10 reshuffled per \$1 gain from trade at low levels of tariffs
 - cf. Antràs, de Gortari, and Itskhoki (2017)
- So do recent empirical analyses of labor-market effects
 - China shock (Autor, Dorn, Hanson, 2016)
 - NAFTA (Hakobyan and McLaren, 2017)

2. Economics of differential mobility

- Present globalization: K mobile, L immobile
 - outsourcing, FDI
 - financial globalization
- Labor demand becomes more elastic
 - impact on bargaining and rents
 - impact on incidence of shocks
 - impact on taxes

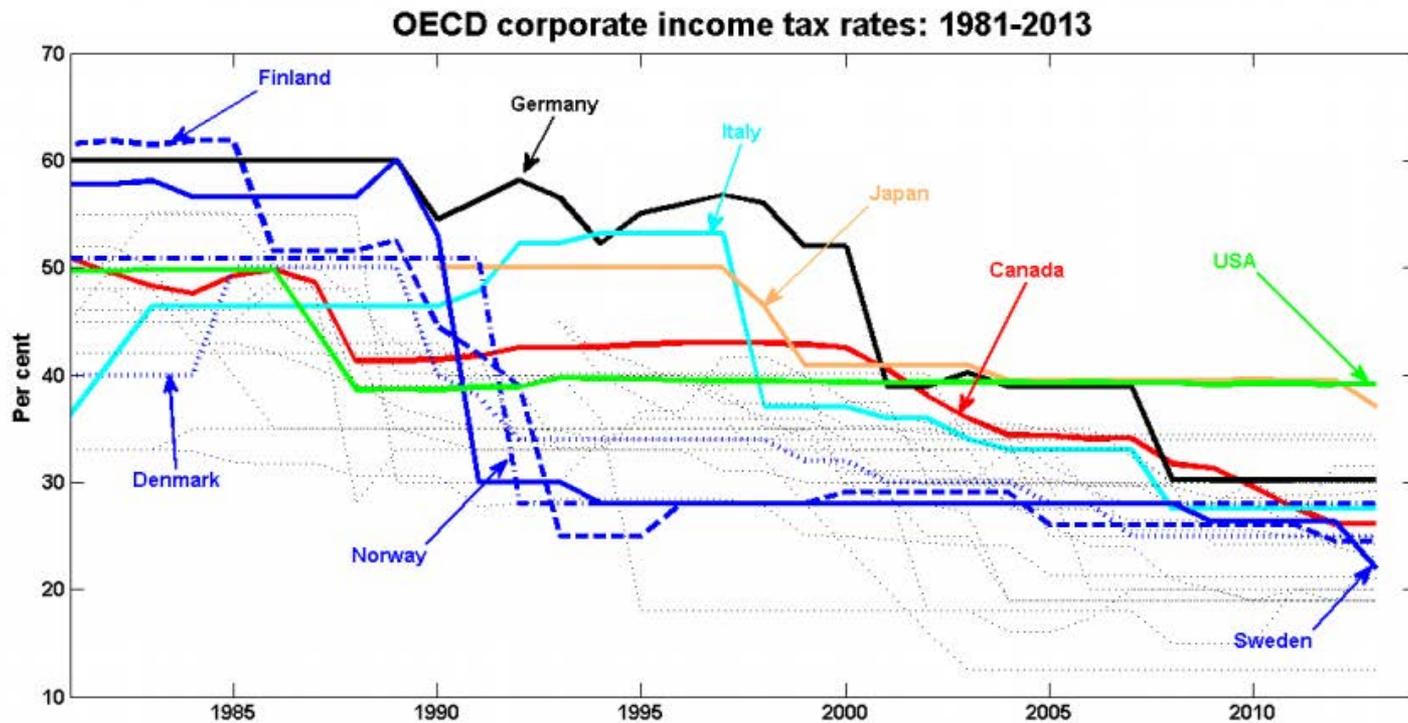
Redistributive effects of capital-account opening



Note: The solid line corresponds to the IRF; dotted lines correspond to 90 percent confidence bands. The x-axis denotes time. $t=0$ is the year of the reform.

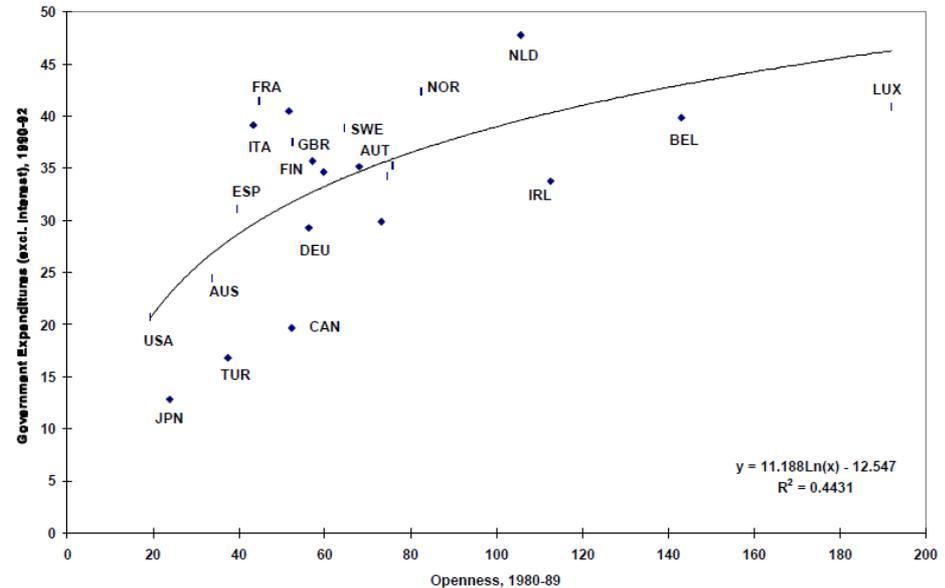
Source: Furceri et al. (2017)

The global decline in corporate income taxes



3. What about compensation?

- High levels of openness in Europe sustained by bargain:
 - welfare state in exchange for open economy
- In U.S., TAA a very poor substitute
 - ineffective because time inconsistent
- In advanced stages of globalization, the bargain becomes unsustainable
 - taxes shift from mobile K to immobile L
- Result is greater economic insecurity with weaker safety nets

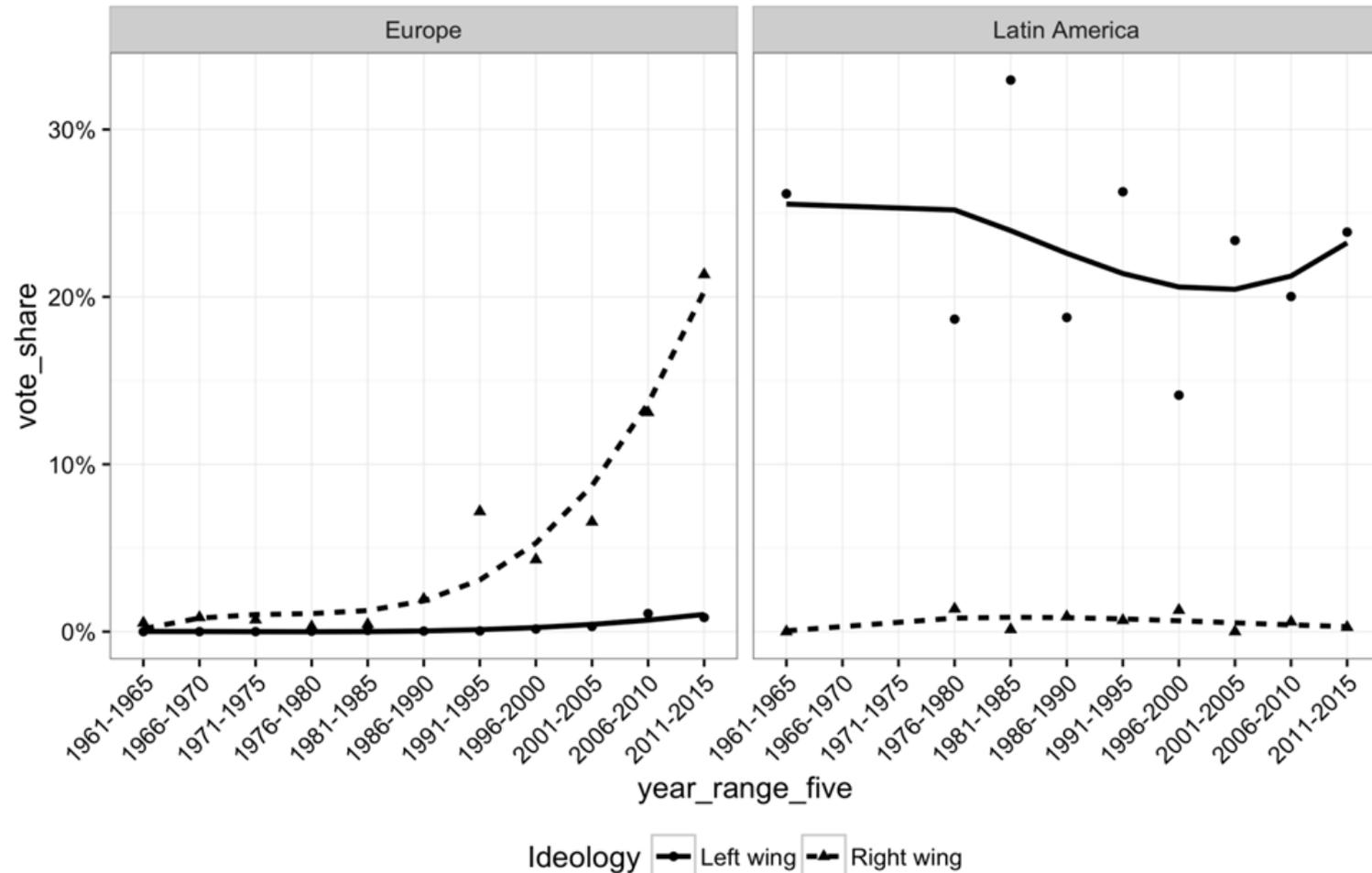


Source: Rodrik (1997)

4. It's not just about incomes...

- Globalization is dissimilar from domestic market competition or technological change insofar as it forces competition under ground rules that have been prohibited at home
 - e.g. “unfair” labor practices, tax havens, subsidized goods, ...
- Such competition can undermine:
 - tax rules (corporate taxation, top income tax rates)
 - regulations (financial regulations, product safety rules)
 - domestic norms (“what’s an acceptable redistribution?, employer-employee bargaining norms”)
- Legitimate concerns about level playing fields, fairness of trade
- Domestic divisions between “cosmopolitans” and “communitarians”
- “Inequality is felt most acutely when citizens believe that the rules apply differently to different people.” (Pierre Rosanvallon, 2016)

Understanding varieties of populism: Europe vs. Latin America



From economics to politics of populism

- Demand-side of politics
 - economic anxiety, discontent, loss of legitimacy, fairness concerns...
- Supply side of politics
 - populist politicians can mobilize support by exploiting one of two cleavages
 - the ethno-national/cultural cleavage => right-wing populism
 - the income/social class cleavage => left-wing populism

From economics to politics

- Demand-side of politics
 - economic anxiety, discontent, loss of legitimacy, fairness concerns...
- Supply side of politics
 - populist politicians can mobilize support by exploiting one of two cleavages
 - the ethno-national/cultural cleavage => right-wing populism
 - the income/social class cleavage => left-wing populism
 - hypothesis:
 - it's easier to mobilize along the ethno-national/cultural cleavage when globalization shock takes the form mainly of immigration and refugees (Europe)
 - it's easier to mobilize along the income/social class cleavage when globalization shock takes the form mainly of trade, financial crisis, and foreign investment (southern Europe, Latin America)

Comparing France and Spain

Table 2: Characteristics of immigration source countries (2013)

	host country			
	France		Spain	
Source country (only top 25 source countries included)	share of migrant stock	share of home population	share of migrant stock	share of home population
Predominantly Moslem	41%	5%	13%	2%
Sub-Saharan Africa	8%	1%	0%	0%
Other developing	4%	0%	3%	0%
Eastern Europe (incl. Russia)	3%	0%	18%	3%
Latin America	2%	0%	33%	5%
Developed Europe	24%	3%	17%	2%
Total of included countries	82%	9%	83%	12%

Source: World Bank Bilateral Migration Matrix, 2013. For more formal tests, see Guiso et al. (2017).

Conclusion: a (limited) defense of economic populism

- Populism is characterized by aversion to agencies of restraint
 - separation of powers, autonomous agencies, trade agreements,...
- Delegation to independent agencies (domestic or foreign) occurs in two different contexts:
 - In order to prevent majority from harming itself in the future
 - In order to cement a redistribution arising from a temporary political advantage for the longer-term
- Economic policy restraints that arise in the first case are desirable; those that arise in the second case are much less so.
- Economic populism can sometimes forestall its much more damaging cousin, political populism.