Globalization in an Era of Discontent: Populism, Prosperity and Policy in Contested Times

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Some Quotes from Last Week...

• “You cannot spend all the money on drinks and women, then ask for help.”
• “[The] European vision is evident in the union’s policies: a presumed economic, moral and even cultural superiority coming from northern countries, to the detriment of the South.”
• “It might be worth tactfully reminding people - not one of my strongest points - that there’s a realistic position here that we don’t really owe anything to the EU.”
• “Turks in Europe should have five children, not three, because you are the future.”
And yet we Hear that Europe is Growing at Last and Populism has Peaked

• Deflation halted – Inflation Returning
• Faster Growth than the US Q1
• Employment Rising
• PMI’s rising (even in France)
• Dutch populists get only 25% of the vote
• French populists will lose second round
But What if Populism is Structural rather than Cyclical?

- “Inflation is up, Employment is up, Growth is up, Populism has Peaked”
- Inflation is transitory - devaluation and energy effects
- Demography matters and Europe is OLD (reinforcing deflation)
- Employment growth, part-time, and ignores Hysteresis effects on young workers
- Without Real Wage growth > Inflation underlying creditor/debtor politics remain
The Issue is that President Trump is One Part of a Bigger Mosaic
In fact, there’s so many its hard to fit them all on the map...
What do all these People have in Common?
The Are All – Left and Right – Neo-Nationalists

• “I’m not a white nationalist, I’m a nationalist. I’m an economic nationalist…The globalists gutted the American working class and created a middle class in Asia. The issue now is about Americans looking to not get f—ed over. If we deliver.”

• Steve Bannon, Quoted in the Hollywood Reporter, 11/18/2016
And from a Certain Point of View, he’s not wrong…

Change in real income between 1988 and 2008 at various percentiles of global income distribution (calculated in 2005 international dollars)
## Three Globalization Paradoxes that will not go away

### The Trilemma

- Trilemma of globalization, democracy, and national Sovereignty (*Rodrik*)

- Trilemma of high inequality, high capital mobility, and labor’s enforced immobility (*Milanovic*)

- Trilemma of global technocracy, local democracy, and political accountability (*Crouch*)

### The Consequence

- Globalization of labor markets, and local ‘flexibility’ to compensate, destroys labor’s ability to command share of surplus (*Wage Stagnation*)

- Capital Mobility shifts tax burden further to labor (*Inequality Skew*)

- Democracy produces Nationalism and anti-Elitism as its response (*Center Left and Right Party vote shares fall, experts discounted*)
But…Overall it looks like Taxes and Spending Did not Shift Downward
But...the Composition Matters
And let’s Not Even Mention The Overall Macroeconomic Stance of 2008-2017
So Are We Repeating the 1930s?
Limiting Democracy to Save the Market?

1920’s
Financial Crises and Deep Recessions

1930’s
Turning to Authoritarianism over Democracy

2010’s
Heading the same Way?
No - But thinking about the post-war era, and then the past 30 years, does tell us something...
The Ideas of an Age define how we Organize the Economy

Cold War era  Neo-liberalism  Neo-nationalism?
What Defined those Two Periods? Distinct Macroeconomic Regimes

Regimes are the Basic Institutions that make up Real Economies

That is, how you do finance, skills and training, retirement, corporate governance, infrastructure, labor supply, etc.

And how they ‘hang together’ to produce distinct patterns of income and wealth across populations.
Two Economic “Regimes”

The Cold War Era - 1945-1980
• Full Employment
• National Economies
• Restricted Financial Markets
• COLA Contracts
• High Taxes and Transfers
• No One Knows who Runs the Central Bank

The Neo-Liberal Era 1980-2008
• Price Stability
• Globalization
• Open Financial Markets
• Flexible Labor Markets
• Low Taxes and Lower Transfers
• Everyone knows who runs the Central Bank
Two Distinct Regimes? Really?
US Treasury Yields
US 10-year Treasury Yield, 10-year moving average

# Regimes Compared

<table>
<thead>
<tr>
<th>Inflation: The Debtor’s Paradise of the 1970s</th>
<th>Deflation: The Creditor’s Paradise of today</th>
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<tbody>
<tr>
<td>Sustained Inflation</td>
<td>Secular disinflation/Low Inflation</td>
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<tr>
<td>Labor’s share of national income at all time high</td>
<td>Capital’s share of Income at all time high</td>
</tr>
<tr>
<td>Corporate profits at all time low</td>
<td>Wage Share at All Time Low</td>
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<tr>
<td>Unions Strong</td>
<td>Unions Weak</td>
</tr>
<tr>
<td>Low Inequality</td>
<td>Inequality high</td>
</tr>
<tr>
<td>National Markets</td>
<td>Globalized Markets</td>
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<tr>
<td><strong>Finance Weak, Central Banks Weak, Parliaments strong</strong></td>
<td><strong>Finance Strong, Central Banks Strong, Parliaments Weak</strong></td>
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What Ended the First Regime - Inflation

Nixon Vows Inflation Cut

Washington, D.C. -- AP -- President Nixon pledged to Congress Monday to cut inflation sharply, scale down high unemployment, and bring economic pressures in the nation by mid-1972.

He said his administration would achieve three goals with a great economic leap forward. He added, "The administration's economic strategy is this: Full Prosperity Without War, Full Prosperity Without Inflation."

The 1972 targets, set by the Council of Economic Advisers in the report, are these:

- Full prosperity with no inflation.
- An unemployment rate of 4%.
- An inflation rate of 3%.

The Great Inflation of the 1970s destroyed faith in paper assets, because if you held a bond, suddenly the bond was worth much less money than it was before.
What Ended the Second Regime – Debt and Leverage
The Great Leveraging: Bank Assets (Credit) Since 1970

Figure 3
The Size of the Banking Sector Relative to GDP: Loans, Assets, and Broad Money in 14 Advanced Countries

Alan M. Taylor, The great leveraging.
Where Did all the Leverage Go?
Euro Area Wage Growth 2008-2017

Source: TradingEconomics.com | Eurostat
Wage Share of GDP over the Long Run

wage share of GDP

Graph showing the wage share of GDP for Germany, France, Sweden, the United States, Japan, and the Rich OECD average from 1960 to 2011.
So what happens when you bail out that massively levered system in 2008?

Consequences
Euro Area Government Debt to GDP (Gross) 1997-2017
Euro Area Inflation 1990-2017
Problem: The 1970s was Noise – not Signal
Misunderstanding the 1970s: Interest rates over the Very Long Run

Source: Kazuo Mizuno (the former Japan Cabinet Office Economic Advisor) and Capital World Investors via Tomonori Tani.
We are going to Stay Long and Low for a Long Time

The End of Regime 2

• Monetary Sources of Inflation or Labor Power? (Fung 2016)
• Long end of curve set negative ($26 Trillion in CB Intervention and Negative Yielding Assets)
• Demography: The Old Vote 2x Young, have 80% of assets, and hate Inflation
• Consumption to Wealth Ratio is at 80 year low (predicts forward rates – Gourichas and Rey 2016)
• Natural rate has declined below ZLB? (San Fran Fed 2016)
• Euro deleveraging done via periphery contraction – long, painful, populism generator
And If Wages are Tied to Productivity, They are Going Nowhere

Productivity Slow Down Across Regime 2 (OECD Data)

- EZ
- US
- UK
- Spain
- Netherlands
- Japan
- Italy
- Germany
- France
- Canada

2008-2016
1990-2007
Add all this together and you get Populism

• Debts too High, Wages too Low, Inflation too Low

• **Left Response:** Blame Capital/Globalization

• **Right Response:** Blame Immigrants/Globalization
The Results are Creditor Vs Debtor Stand-Offs

<table>
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<th>Losers</th>
<th>Winners</th>
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<tr>
<td><strong>Creditors:</strong> Real value of debt goes up but ability to collect goes down</td>
<td><strong>Debtors:</strong> Can’t pay - Won’t pay – will vote – Welcome to Populism</td>
</tr>
<tr>
<td><strong>Result: Death of Traditional Center Left Parties:</strong></td>
<td><strong>Result: Rise of Populist and Right-Nationalist Parties:</strong></td>
</tr>
<tr>
<td>Vote share collapsing</td>
<td>Renationalizing Markets, anti-austerity coalitions, anti-globalization, anti-trade/Euro, anti-Immigrant</td>
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<tr>
<td>New left parties seen as mortal threat to existing parties</td>
<td></td>
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As Seen in the Decline of Social Democracy – Europe heads Right

Source: Matthew Goodwin, University of Kent

Index based on the simple and population-weighted average vote share for social democratic parties in the old EU15 from 1946 until the end of 2014. The base year for the index is 1970.
### Social democracy in the polls in 2017

Source: Matthew Goodwin, University of Kent

<table>
<thead>
<tr>
<th>Country</th>
<th>Latest Polls</th>
<th>Change on last election</th>
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<tbody>
<tr>
<td>Norway</td>
<td>38%</td>
<td>+3</td>
</tr>
<tr>
<td>Denmark</td>
<td>25.9</td>
<td>+1</td>
</tr>
<tr>
<td>Austria</td>
<td>27%</td>
<td>-2</td>
</tr>
<tr>
<td>Spain</td>
<td>17%</td>
<td>-5</td>
</tr>
<tr>
<td>Germany</td>
<td>20%</td>
<td>-5</td>
</tr>
<tr>
<td>Britain</td>
<td>24%</td>
<td>-6</td>
</tr>
<tr>
<td>Sweden</td>
<td>24%</td>
<td>-7</td>
</tr>
<tr>
<td>France</td>
<td>12%</td>
<td>-17</td>
</tr>
<tr>
<td>Netherlands</td>
<td>10%</td>
<td>-28</td>
</tr>
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</table>
And the Electoral Entrenchment of Populist Right

Source: Matthew Goodwin, University of Kent
So How Do We Solve Those Three Paradoxes and Make Globalization Work for Everyone?
Has the BoJ Solved the “Piketty Problem”?

**Figure 3:** An illusory measure
Japan gross government debt (% of GDP), IMF data

**Figure 4:** Whose asset, and whose liability?
Japanese Government Bonds and T-Bills held by Central Bank (% of total)
Stop the Dodgers and the Enablers

Embrace country-by-country reporting and report full Beneficial Ownership

Make Lichtenstein/Ireland Illegal

Make Incorporations More Difficult

Blockade the Financial Anglosphere till they play ball
There’s More to Life than Pushing Down Wages

- Even the IMF Likes Labor Unions these days
- Greatest predictor of the Growth in Inequality is decline in union density
- Shift to Structural Reform Agenda 2.0 (Rents > Wage Compression) is really good
- If Union member household .7 less likely to vote populist

Source: IMF, Inequality and Labor Market Institutions, SDN/15/14 November July 2015
End the Financial Doom-Loop and Sell Globalization Better

Push back on Finance

• Shareholders as only legitimate residual claimants make corporates targets
• Dis-incentivize short termism, Financial Engineering, Low CAPEX, corps as net savers
• Lower incentives for leverage in the system overall
• Better regulate Shadow Banking Sector

Push Forward on Globalization

• Globalization not the problem, bad policy is the problem
• Adjustment without compensation is bad for globalization
• Push forward with better investment in education
• Push Back against Rich Boomers
And above all else – recognize a structural feature when you see it

• People (everywhere) want protection from the market
• The more you push, the more they resist since they don’t have optionality
• Once you have given up on a brighter future, all you have is a fictitious radiant past
• Argue for the future or lose the present