

Globalization and Nationalism: Retrospect and Prospect

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Outline

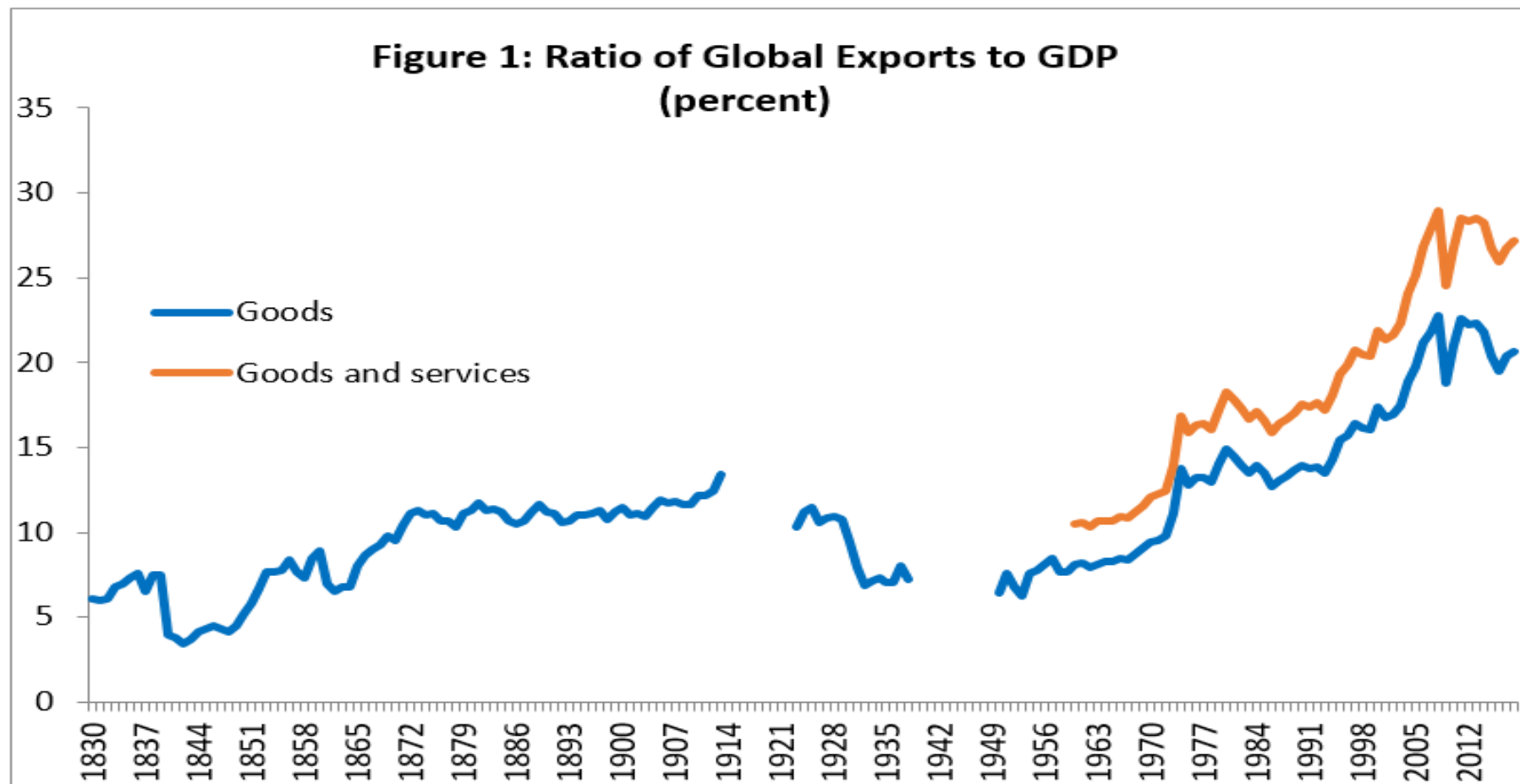
Nationalism is again on the rise – world trade grew at only 1.1 percent in 2019 and especially now after COVID-19, the future of globalization is in doubt. History can illuminate the choices ahead. In this talk I will cover:

- Dominance of nationalist economic policies in the interwar period
- Keynes – from “National Self-Sufficiency” to Bretton Woods
- Nixon’s nationalism: Demise of Bretton Woods
- Hyper-globalization during the Great Moderation
- Political reactions in advanced economies
- Welfare states, globalization, racial tension, and immigration
- The continuing urgency of (more and better) multilateral cooperation

From the early 19th century, globalization rose, fell, rose again, and now may peaked

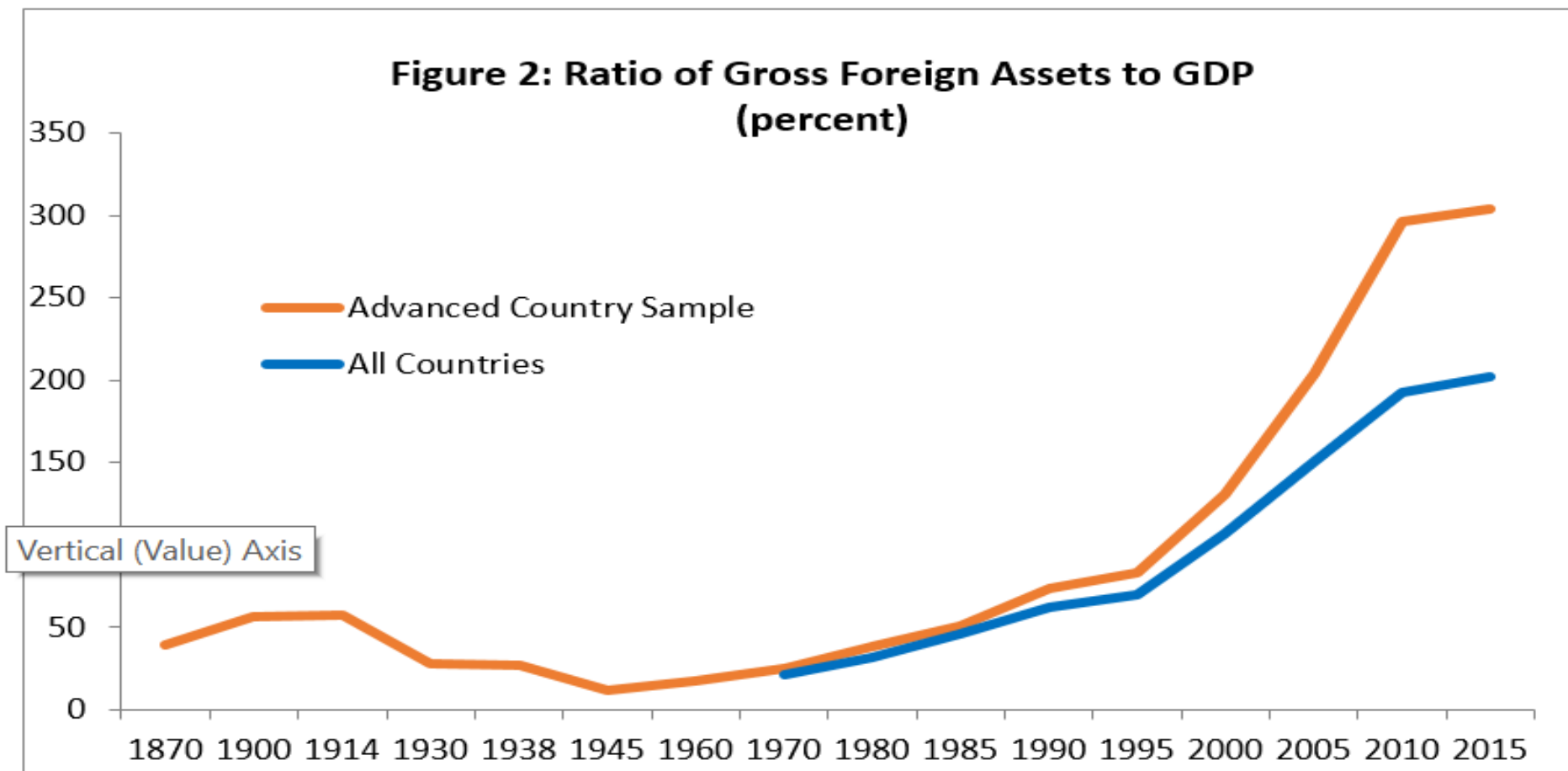
- Nineteenth century – industrial revolution, greater specialization, empires and commodity trade, gold standard, great migrations
- Interwar period – flawed attempt to return to “normalcy” followed by financial crisis, depression, nationalistic politics, trade and financial restrictions, move toward trading blocs, renewed march to world war
- Postwar settlement Bretton Woods, Bretton Woods, Marshall Plan
- Collapse of Bretton Woods fixed rates may have spurred globalization
- Fall of Soviet Bloc (1989-91) followed by EU enlargement, developing country reforms, WTO, “Great Moderation”
- Backlash and increasing doubts after the 2008-09 crisis

Evolution of world trade



Source: See [Catão and Obstfeld \(2019\)](#)

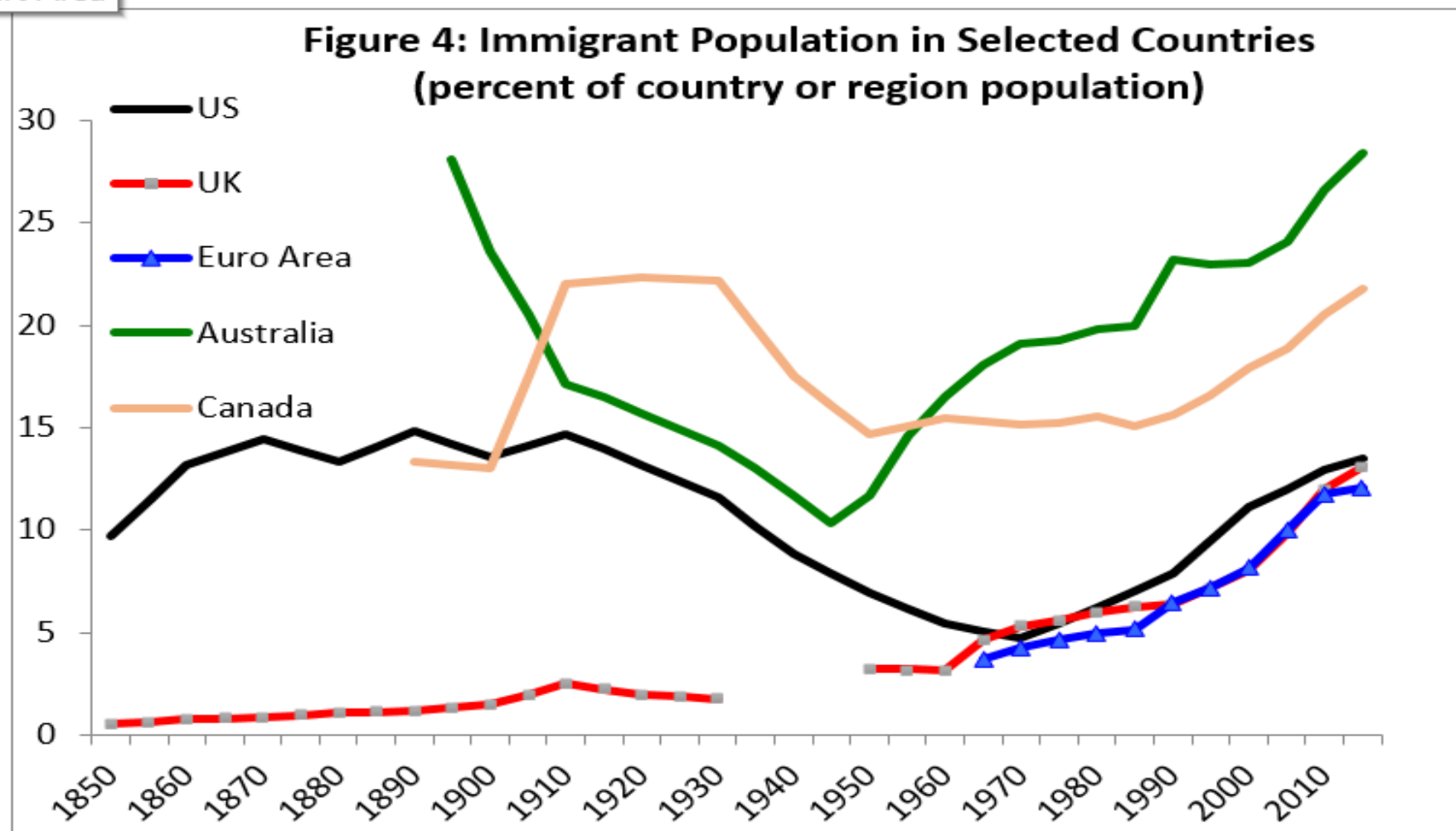
Evolution of world cross-border assets



Source: See Catão and Obstfeld (2019)

Evolution of immigrant populations

Chart Area



Source: See [Catão and Obstfeld \(2019\)](#)

1933 and Keynes's "National Self-Sufficiency"

- Globalization tensions arose before WWI, but they exploded in the early 1930s
- Keynes's 1933 Finlay Lecture at UCD marked a shift from his prewar views (it was on April 19, the day before FDR devalued the dollar; 11 weeks after Hitler became German chancellor; and three years before publication of *The General Theory*)
- The lecture is an important step in understanding where Keynes ended up intellectually at the end of WWII – and how a postwar multilateralism based on “embedded liberalism” was born
- It also resonates with today's debates
- The context: In 1932, Éamon de Valera came to power in Ireland – he was a leader of the 1916 Easter Rising and had led opposition to the treaty with Britain creating the Irish Free State
- A trade war with Britain followed, lasting until 1938
- Keynes's hosts hoped he could moderate de Valera's confrontational policies
- Keynes's answer is somewhat obscured if one omits the Ireland-specific passages (as the better known versions of the speech – e.g., in the *Yale Review* – do)

Keynes's message was nuanced



- He criticized 1920s international capitalism
- He praised economic experimentation in crisis conditions
- But he cautioned against self-harming radicalism

The critique of capitalism

- “[T]he age of economic internationalism was not particularly successful in avoiding war”
- “The decadent international but individualistic capitalism, in the hands of which we found ourselves after the war, was not a success.”
- “There may be some financial calculation which shows it to be advantageous that my savings should be invested in whatever quarter of the habitable globe shows the greatest marginal efficiency of capital or the highest rate of interest. But experience is accumulating that remoteness between ownership and operation – which is historically symbolised for you in Ireland by absentee landlordism – is an evil in the relations between men”
- “[W]e have until recently conceived it a moral duty to ruin the tillers of the soil and destroy the age-old human traditions attendant on husbandry, if we could get a loaf of bread thereby a tenth of a penny cheaper.”

The case for experimentation

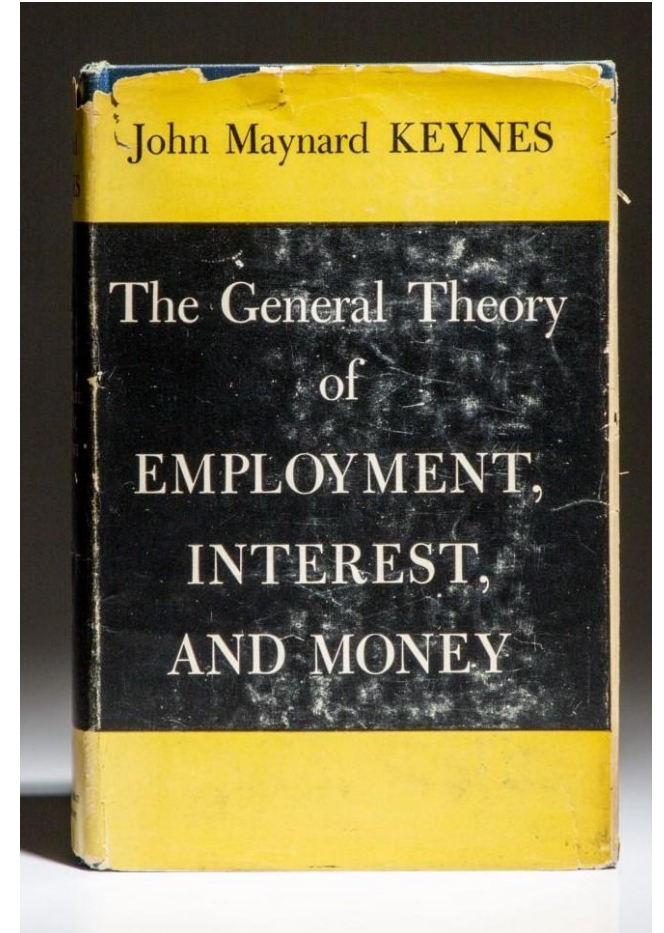
- “Each year it becomes more obvious that the world is embarking on a variety of politico-economic experiments, and that different types of experiment appeal to different national temperaments and historical environments.”
- “Advisable domestic policies might often be easier to compass, if the phenomenon known as ‘the flight of capital’ could be ruled out.”

The need for caution

- “[T]he policy of national self-sufficiency is to be considered, not as an ideal in itself, but as directed to the creation of an environment in which other ideals can be safely and conveniently pursued.”
- “The economic transition of a Society is a thing to be accomplished slowly. What I have been discussing is not a sudden revolution, but the direction of a secular trend.”
- “What a wound would have been inflicted on the fair face of Ireland if within two or three years her rich pastures were to be ploughed up and the result were to be a fiasco!”
- “No one has the right to gamble with the resources of a people by going blindly into technical changes imperfectly understood. Russia stands before us as an awful example”

The General Theory (1936) was part of a solution to the crisis of the 1930s – albeit an inward-facing one

- The book is fundamentally about how *national* governments can meet *national* economic goals – goals the voters insist upon
- But could one do so in an international context, where gains from trade can also be realized? Keynes addressed this in his postwar planning during WWII
- The Bretton Woods system was designed to reconcile governments' abilities to meet national objectives with fairly open trade (thought to require predictable exchange rates) and multilateral cooperation



Resurgent U.S. nationalism and floating rates

- Bretton Woods was successful in many respects – but by the 1960s it was under stress, partly due to its very success
- Under Richard Nixon, the system collapsed entirely by 1973. His actions included:
 - Severing the link between gold and dollars held by foreign monetary authorities
 - A 10% import surcharge, to be kept in place until trade partners agreed to revalue their currencies against the dollar
 - Domestic wage and price controls
 - Pressure on Federal Reserve chair Arthur Burns to loosen monetary policy despite inflationary pressures – an action that would also stoke unwelcome inflation abroad, given that other countries were pegging to the US dollar



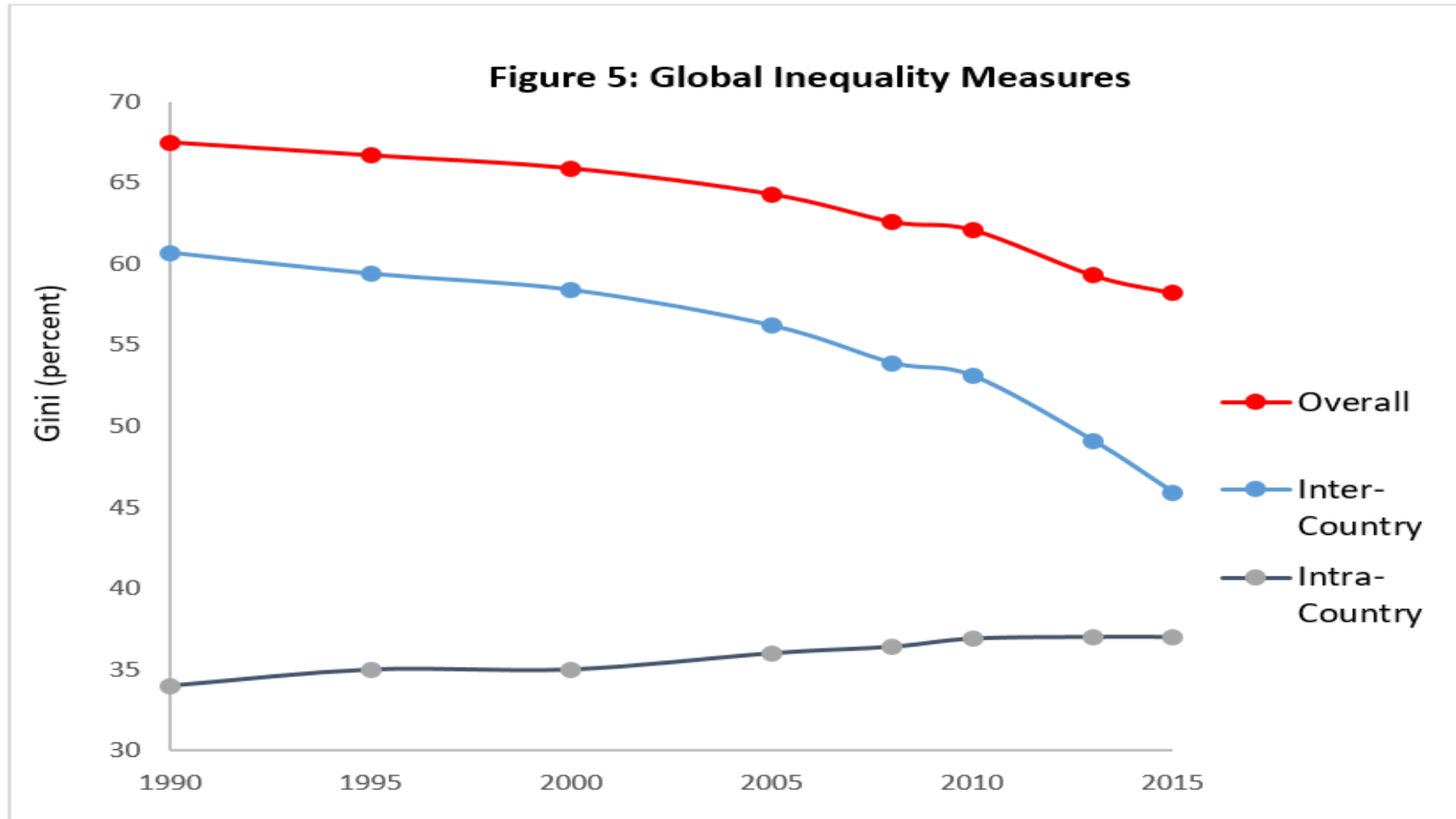
Flexible exchange rates: A concession to nationalism?

- Flexible exchange rates can be viewed as a nationalistic solution, in that they allow for a greater degree of monetary autonomy
- Their advocates – such as Friedman, Meade, and Haberler – viewed them, however, as a safety valve that would prevent nationalistic actions where they might hurt economic efficiency much more, as in trade
- Harry G. Johnson (1969): “The main argument for flexible exchange rates ... is that they would make [the] surrender of [monetary] sovereignty unnecessary, while at the same time making unnecessary the progressive extension of interventions in international trade and payments that failure to resolve this issue necessarily entails.”
- Exchange flexibility did allow a progressive dismantling of capital account restrictions while also not impeding trade liberalization and expansion
- But concerns about beggar-thy-neighbor issues remain (Bergsten, Rajan).

Hyper-globalization in the 1990s and 2000s

- Move toward market orientation, including by center-left parties, in advanced economies
- Emerging market liberalization, with impressive growth results in some countries, especially China and India
- Collapse of Soviet bloc and transition to the market, accompanied by EU and NATO expansion
- Creation of WTO in last successful multilateral trade round; regional trade agreements; offshoring; global value chains
- Launch of the euro
- Explosion of international financial transactions on the back of domestic financial liberalization
- Crises with global repercussions: Tequila, Asia, Russia, dot.com, subprime, euro

Global trends in inequality



Source: Methodology of Bourguignon (2015), as kindly updated by the author

Uneven domestic gains – and disruptive impacts

- These have occurred in rich and poor countries alike, but even the poor have gained significantly in many poorer countries
- The disruptive effects of Chinese import penetration in the United States feature in empirical studies by Autor, Dorn, and Hanson, by Pierce and Schott, by Ebenstein, Harrison, and MacMillan, others
- These reinforce the technological drivers of labor-market polarization
- Deindustrialization and urban agglomeration exacerbate regional divergence within advanced countries
- Political backlash in the U.S. and Europe (e.g., Colantone and Stanig 2019, *JEP*, on the role of Chinese import penetration in the latter)
- We are in a new crisis, raising a questioning of economic orthodoxy analogous to what Keynes expressed in the 1930s

Whither the US and Europe? A simplistic schematic

Figure 6: Political Orientations and Trade

	LEFT	RIGHT
FREER TRADE	Moderate Social Democracies	Laissez-Faire Conservatism
TRADE INTERVENTIONISM	Left-Wing Populism	Right-Wing Populism

Source: See [Catão](#) and Obstfeld (2019)

- Trade support has been stronger in upper-left Europe, but the political configuration is endogenous; maybe “you can’t get there from here”

United States

- With a slimmer social safety net, US has been essentially upper right
- This configuration might be unstable
- Long-time strong anti-trade feeling among Democrats – only 13 Democratic senators and 28 representatives voted to give President Obama TPA in 2015
- But since Trump, Republicans have shifted against trade too
- Some conservatives (e.g., at the Niskanen Center) have proposed greater social risk sharing (to fill missing markets) while preserving trade
- But the Republican party as a whole has moved in a populist direction (to the lower right, what political scientist G. John Ikenberry called “national capitalism”) – does not bode well for future US trade openness
- Some aspiring leaders have been very explicit about departing from free-market principles in a number of spheres, including resisting trade-driven reallocation

Some 2019 US political manifestoes

- Senator Hawley, Missouri (R) – lower right?
 - Resist “cosmopolitan elite” who value globalization over “things like place and national feeling and religious faith”
 - Rely on families and religious communities for “protecting the vulnerable, defending the weak”
 - Invest in workers and “heartland communities” -- not clear how, if small government is a goal
 - In 2019 proposal with (Democratic) Senator Baldwin: have the Fed tax capital inflows to keep the US trade deficit close to zero
- Senator Warren, Massachusetts (D) – lower left?
 - Contains protectionist elements (like export subsidies) but is not inherently anti-global and calls for an expanded social safety net

Europe

- Important research by Alberto Alesina and coauthors suggests that racial heterogeneity has impeded expanded US social safety nets
- Could be a future problem in Europe – with implications for trade
- From Alesina and Glaeser (2004):
 - “One natural implication of our conclusion that fractionalization reduces redistribution is that if Europe becomes more heterogeneous due to immigration, ethnic divisions will be used to challenge the generous welfare state.”
- Alesina, Miano, Stantcheva (2019): Respondents in US, UK, Europe overestimate immigrant numbers, underestimate their skills, and become more negative on redistribution after immigration questions
- Fiscal pressures may also threaten Europe’s social safety nets in future, given demographic trends and now, much higher debt levels

Navigating Dani Rodrik's trilemma

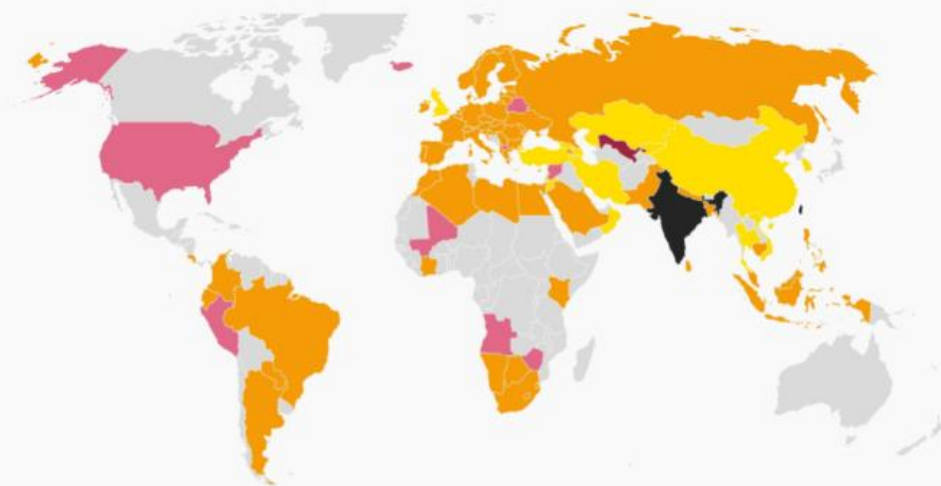
- Incompatibility of more than two out of three:
 - International economic integration
 - The nation-state
 - Democratic governance
- Example: Mobile capital may throw the burden of taxation onto labor
- Multilateral approaches are key, and Biden is now pursuing some:
 - Cooperation on tax havens and avoidance, dark money flows
 - Coordinated minimal levels of capital taxation
 - Labor standards – as actually occurred during late 19th century
- If communicated well, such initiatives could enhance public support for multilateralism with openness
- Other areas call for multilateral action: climate, health, corruption, security, financial stability

The pandemic has brought us to a hinge point

- We needed, but did not get, a globally coordinated approach
- Even within the US, it has become an issue of political ideology
- The pandemic suggests that we strengthen, not weaken, the WHO and its ability to call out members
- On the trade front, export restrictions on medical supplies and food have been counter-productive
- Desire for security might promote re-shoring, less open borders

Exports of medical supplies & medicines: 90 jurisdictions are reported executing a total of 177 export controls since the beginning of 2020

Updated on 19 June 2020



Source: Information collected by the Global Trade Alert team as part of a joint project with the European University Institute and the World Bank. Policy changes identified from official decrees, regulations, and announcements and from media reports. Some policy measures are announced to the press before implementing regulations are published. Information based on media reports is updated when an official state act is located. Date of first relevant policy information by a jurisdiction was used to prepare this map. The information collection methodology as well as the worksheet of information on policy change used to construct the latest version of this map can be downloaded from <https://www.globaltradealert.org/reports/54> (Please copy & paste this URL into your browser).



Can we avoid an uncoupling into mutually antagonistic trading blocs?

- This is what Keynes and the Bretton Woods settlement hoped to avoid after WWII
- The solution those planners adopted tried to preserve considerable room for national sovereignty, while promoting growth, trade, and development
- We may have gone overboard in the 1990s and 2000s in favoring the market over the state -- and in favoring mobile capital over immobile labor
- But have political tensions now gone too far for us to find a sensible point on the tradeoff between economic integration and sovereignty?
- The tradeoff can be eased by cooperation, but unlike in 1945, we are now a multi-polar, not hegemonic, world – perhaps making cooperation harder
- Technologically we are more integrated than ever; and the collective action challenges we face (e.g., on climate) are also more dangerous than ever
- The world needs a new constructive consensus on global cooperation and governance: the costs of failure will be immeasurable