Prof. Jeffrey Frankel, Harvard University

Outline of introductory comments on “Threats to the International System”
for the Bellagio Group
hosted by the National Bank of Belgium, Brussels, January 12, 2019,

QUESTIONS POSED FOR SESSION 6: THREATS TO THE INTERNATIONAL SYSTEM
How much of a threat does U.S. unilateralism pose to the multilateral system that has helped global trade and finance flourish since 1944? Is this U.S. turn just a 4-year aberration or something more long-lasting, reflecting deep-seated domestic political and economic developments? What approaches should other nations take to buttress that system? Should they collaborate with the U.S. in addressing its valid concerns about the operation of the current system? Should they strengthen and reform multilateral institutions like the WTO and the IMF to ensure that their funding and procedures are adequate, U.S. participation and financial support or not? Or should they further articulate regional trade and financial arrangements to substitute for the global institutions caught up in international disputes?

Before I respond to the questions posed by our convener, Barry Eichengreen, let me briefly recapitulate some very familiar history, in the form of 3 turning points over the last century.

* Phase (1) After WWI, the major nations, including the US, made fundamental wrong turns. These mistakes ended in economic collapse and a new world war.
	+ (Mistakes by the UK included: “The Economic Consequences of the Peace,” return to the gold standard, and appeasement of Hitler.)
	+ The US mistake was isolationism, including: rejection of the League of Nations by the US Congress, the Smoot-Hawley tariff, etc.)
* Phase (2) After WWII, the victorious allies resolved to avoid repeating the mistakes of the past. We established liberal rules-based multilateral institutions that
	+ provided a framework for open economies & open societies and
	+ enabled a record half-century of relative peace, the advancement of human rights and democratic ideals, and global prosperity (which has included not just the advanced countries but also, eventually, a historic reduction of poverty in developing countries),
	+ The institutions, of course, included the Marshall Plan, UN, IMF, World Bank, NATO, GATT, and WTO.
	+ I hope it doesn’t sound like “American exceptionalism” to suggest that the US deserves some credit for getting it right after WWII -- for showing leadership of two sorts:
		- Leadership (1) internationally, as a convener of the international institutions (or “conductor of the orchestra” – Kindleberger, 1986)
		- and Leadership (2) domestically, as a model or example of a successful system attractive to others (“soft power” – Nye, 2004)
		- Admittedly the US made some serious mistakes
			* particularly when it interpreted Third World nationalist movements as simple communist challenges to democracy.
* Phase (3) After the end of the Cold War, the West could have consolidated its victory and led the whole world on a reinforced 21st century path of progress. Instead, we, the US, have voluntarily thrown away international leadership. We have again made a fundamental wrong turn. “America First” is a reversion to 1920s & 30s. The folly began before the current president, but Donald Trump has taken it to extremes.
	+ What should other countries do, other than hope that Trump has at most two more years in the White House?
	+ 1st Eichengreen option: “Should they collaborate with the U.S. in addressing its valid concerns about the operation of the current system?” such as together confronting China over some valid trade complaints? I consider this not practical under Trump. For one thing, he is too erratic. For another thing, US tariffs, in my view, are currently violating international trade commitments as flagrantly as what China is doing, if not more.
	+ The next option for other countries: “should they further articulate regional…arrangements to substitute for the global institutions…?” Yes, to the extent possible.
		- I wish Germany and the EU were in strong enough shape politically to take the global lead. But this does not seem to be the case.
		- If the EU can make Free Trade deals with Canada and Japan, good.
		- It is great that, after Trump pulled the US out of TPP, the remaining 11 countries went ahead on their own anyway (taking effect this month, [Jan. 2019](https://www.sbs.com.au/news/turnbull-celebrates-as-landmark-tpp-11-pact-takes-effect)), and that they even left room for the US to join later.
	+ But mostly I am looking ahead to the day Trump leaves office….
	which brings us to BE’s most central question:
* “Is this U.S. turn just a 4-year aberration or something more long-lasting, reflecting deep-seated domestic political and economic developments?”
	+ I will note, first, that a return to a liberal rules-based order need not be as US-dominated as it was in the late 20th century.
		- China and other EM countries warrant a larger share in global governance.
		- I, for one, would not mourn overly the loss of US hegemony, so long as the multilateral system embedded the right values and facilitated economic and political progress.
		- But I don’t see how a return to the path of a liberal rules-based order can happen without a return to sanity in the US.
	+ So: Is Trump a temporary aberration? Partly. I think we will return partway to normal when he is gone.
	+ Unfortunately, once the US president has established dangerous precedents, lied frequently, broken international agreements, and undermined international institutions, some of the damage is going to be permanent.
	+ Moreover, there are the problematic “deep-seated *domestic* developments” to which Eichengreen refers. These presumably include the polarization of domestic politics and the breaking of so many norms domestically. Is Trump just a symptom and will the effects be permanent?
		- Domestic US institutional details such as gerrymandering, the electoral college, the Citizens United case, etc. are important, but are not the fundamental underlying source of the problem.
		- For one thing, many other countries [Italy] have also undergone analogous changes in their political systems in the last few years, usually in similar directions of tribalism, anti-globalization and mistrust of elites.
		- The conventional view sees the fundamental source of the problem as lying in increasing economic inequality and the disaffection of the left-behind worker. Personally, I don’t entirely share this interpretation,
			* largely because the Trump voters (the left-behind workers) tend so often to support policies that either go against their economic interest (e.g., US tax cuts for the rich and the attempts to dismantle Obamacare) or are at best are orthogonal to them (e.g., opposing vaccines or elementary gun control).
	+ My working hypothesis as to what is the deep-seated exogenous origin of the problem with our politics is technological changes in the media industry that now allow each ethnic or ideological tribe to live in its own hermetically sealed information bubble. The result is the intractable “fake news” problem or what I will call “factlessness”. To recall just one conspicuous example, 42% of Republicans continued to believe that Barack Obama was born outside the US, even long after his birth in Hawaii was thoroughly documented. Why? Those respondents get their facts from somewhere else than the rest of us.
		- It used to be that we Americans all got our news from the same three TV networks. That is gone.
		- 23 states no longer have a newspaper that sends a reporter to Washington ([Mele](https://vineyardgazette.com/news/2018/07/06/nicco-mele-speaks-changing-narrative)). Etc.
		- Instead we have the proliferation of outlets (Fox News, Facebook, & other social media) which allow people to choose the set of facts that seems most pleasing to them.
		- Similar trends are taking place in other countries.
		- The factlessness problem won’t go away when Trump does.
		Still, one can hope that the historical trend is not literally permanent.