International Cooperation in the Age of Populism

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Abstract For much of the post-World War II period the world seemed on a path of ever-greater collaboration among the principal economic centers. In the past decade, economic and political trends have called this upward tendency into question. Within both advanced industrial and developing nations, there has been an upsurge in “populist” sentiment with an economically nationalistic tenor and an explicit hostility to “globalist” approaches to economic cooperation. What is the future of international economic cooperation in a world in which domestic political pressures appear to be pushing the major powers apart, rather than together?

1 Global governance, found and lost

A couple of decades ago, at the turn of the 21st century, the age of global governance seemed to have dawned – or at least appeared on the horizon. Logic supported it: global markets, global problems, and global externalities all demanded global solutions. Policymakers seemed increasingly committed to an unprecedented level of inter-state economic integration and policy coordination. An ever more expansive class of globalists – cosmopolitan, educated, energetic – was coalescing. The future of the world was presaged by the galloping pace of economic and political integration in Europe, now joined in a single market heading toward the free movement of goods, capital, and people, and mostly sharing a common currency. The most dramatic experiment in integration since the Roman Empire seemed well on its way to prove that global governance was feasible – even necessary.

The crisis that erupted late in 2007, troubling as it was, seemed only to demonstrate the promise of the new globalizing reality. Elected policymakers faced many obstacles to an adequate response to the crisis, and there was a notable lack of appropriate, or appropriate coordinated, fiscal policies. However, the monetary and financial authorities of the major economic powers did in fact work closely together to engineer coordinated policies to address the frightening prospect of a crisis that might well have been longer and deeper than the Great Depression of the 1930s. This hardly amounted to the existence of a global lender of last resort and a global
financial regulatory agency to provide the global public goods of monetary and financial stability. Nonetheless, the cooperative measures among policymakers came close enough to fill this bill that there was speculation that the next step would in fact be to create such a global institution – or to transform the International Monetary Fund (IMF) into one. Difficult as the crisis was, the early returns suggested guarded optimism about the possibility of global governance provided by far-seeing policymakers.

It was not to be. Stirrings of discontent surfaced almost as soon as countries began to emerge from the depths of the crisis. In the United States, a rebellious right-wing reaction took the form of the Tea Party movement, which helped the Republican Party sweep the midterm election of 2010. Europe’s governments collapsed into bitter disputes over how best to address accumulated debts, and the region fell into a second recession as leftist movements and parties opposed to austerity shot to prominence in the debtor nations.

Even after the purely economic impact of the crisis began to fade, its political effects matured and grew. In almost all the developed world – and much of the developing – movements arose and proliferated that varied on many dimensions but were similar on several. They rejected most existing political institutions, parties, and politicians. They couched their rejection in absolutist terms, pitting “the people” against a spent and corrupt elite. They were hostile to globalism and the stateless cosmopolitanism of the new global ruling class. These “populist” movements of Right and Left grew almost everywhere – and were able to win elections in some cases, most prominently in the United States.

What explains the emergence of this rejection of global economic and political integration? What is its significance? Has it put a definitive stop to efforts to create and extend global governance? What might slow or stop the march of populism? This essay suggests some answers to these questions.

2 The sources and meaning of the populist upsurge

The 2016 presidential election in the United States was both a symbol of the new political reality, and a watershed in American political history. For the first time in over 80 years, candidates for the presidential nomination of both political parties ran on platforms of explicit hostility to international trade, international finance, and international investment. The rhetoric of Bernie Sanders and Donald Trump was, indeed, strikingly similar. Donald Trump said:

Our politicians have aggressively pursued a policy of globalization, moving our jobs, our wealth and our factories to Mexico and overseas. Globalization has made the financial elite very, very wealthy…. But it has left millions of our workers with nothing but poverty and heartache.

For his part, Bernie Sanders argued:
[T]rade is….a significant reason why Americans are working longer hours for low wages and why we are seeing our jobs go to China and other low-wage countries…[W]e should have a trade policy which represents the working families of this country, that rebuilds our manufacturing base, not that just represents the CEOs of large multinational corporations.

By the same token, Trump claimed:

NAFTA was the worst trade deal in history….And China’s entrance into the World Trade Organization has enabled the greatest job theft in the history of our country.¹

While Sanders was only slightly less bombastic:

NAFTA, CAFTA, PNTR with China…have been a disaster for the American worker….Working people understand that after NAFTA, CAFTA, PNTR with China we have lost millions of decent paying jobs.²

Of course, one of those candidates won the nomination of his party and went on to win the presidency. And this brought to the most powerful office in the world, again for the first time in 80 years, a policymaker who was avowedly hostile to international trade, finance, investment, and immigration, as well as to what he called “globalism,” and to multilateralism.

The root causes of this striking turn in American politics, and in American foreign economic policy, go back at least forty years. The country’s income distribution has deteriorated almost continually – with a pause in the 1990s – since the early 1970s. Almost from the start, many Americans connected this trend with the position of the United States in the international economy. In the 1970s and 1980s, there were those who blamed the stagnation and decline in the wages of unskilled workers on a dramatic increase in imports from developing countries. It is worth noting that this had little to do with China and referred primarily to what were then called the Newly Industrializing Countries (NICs): South Korea, Taiwan, Hong Kong, Singapore, Mexico, and Brazil. As late at 1990, China ranked fourth among developing-country exporters to the United States, after South Korea, Taiwan, and Mexico. The connection was based on good Heckscher-Ohlin logic: greater trade with countries rich in unskilled labor would put downward pressure on unskilled wages in the United States.

This logic led to the original “trade and wages” debate, about the relative importance of trade and skill-biased technological change respectively to the deterioration of the return to unskilled labor in the United States. It is useful to recall that this debate raged in the late 1980s and early 1990s, long before China was a major force (Freeman 1995). The consensus was that technological change was far more important than trade, although more recent reevaluations tend to find a greater impact of trade than had previously been expected (Krugman 2008; Autor et al. 2013).

¹ For the Trump quotes see David Jackson, “Donald Trump targets globalization and free trade as job-killers,” USA Today, June 28, 2016.
In the 1990s and early 2000s, as unskilled wages largely stabilized – at a lower level – much of the attention shifted to the increasing separation between the middle class and the top registers of the income distribution. Whether the target was the top 1 percent or the top 10 percent, activists and others pointed to the emergence of “headquarters cities” and “superstar firms” collecting in prosperous urban agglomerations, pushing out the middle class and leaving them behind. Again, many made a connection to globalization, and regarded the problem as result of an alliance among internationalist firms and banks, globalist governments, and international organizations that privileged markets over social goals. This perspective, largely from the Left, was especially prominent in the late 1990s, culminating in the so-called Battle for Seattle in 1999, on the occasion of a WTO Ministerial Conference.

The American middle class had reason to complain: over the 1980s and into the early 1990s, median household income was largely stagnant in real terms. Rapid economic growth in the 1990s served to paper over some of the discontent. But into the 2000s, real median household income again stagnated. Some of this middle-class stagnation was masked by the 2001-2007 boom in housing and asset prices, which helped increase middle-class wealth. But even during those go-go years, the gains from economic growth were not distributed evenly. During the expansion, two-thirds of the country’s income growth went to the top one percent of the population. These American families, each earning more than $400,000 a year, saw their incomes rise by more than 60 percent between 2002 and 2007, while the income of the rest of the country’s households rose by 6 percent. And even that meager growth was taken back by the Great Financial Crisis (GFC) that began late in 2007.

The impact of the GFC is hard to over-estimate. We see it easily in Europe, where the crisis in the Eurozone was so severe that it took almost ten years for GDP per capita to recover to its pre-crisis levels. Moreover, the unequal distribution of the burden of adjustment is clear in the European context, where the heavily indebted countries suffered Depression-like economic collapses. In Spain and Greece, GDP per capita fell by 10 and 25 percent respectively, while unemployment peaked at over 25 percent – and over 15 percent in Portugal and Ireland.

The crisis in the United States was almost as severe, and almost as unequally distributed. It took six years for American GDP per capita to recover, nine years for median household income. As in Europe, the aggregate numbers mask substantial regional variation. Median household income in prosperous states like Massachusetts and New York has risen by 10 or 15 percent since the crisis, while troubled states like Michigan, Wisconsin, and Florida are still below pre-crisis levels. The regional contrast was also clear in differential rates of unemployment. The unemployment rate in Michigan peaked at 15 percent, while it never reached 9 percent in New York and Massachusetts.

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3 For more details see Chinn and Frieden (2011).
4 All data are from Eurostat.
5 All data are from the St. Louis Fed’s FRED.
The disparities in the impact of the American crisis among social groups were even greater. At the height of the GFC the national unemployment rate was 10 percent. Among the poorest third of American households, however, unemployment was 18 percent; if the underemployed (including discouraged and involuntary part-time workers), are included, the rate rises to 35 percent. Meanwhile, in the richest third of American households, unemployment peaked at 4 percent; including the underemployed, at 9 percent.6 Perhaps most striking has been the collapse of middle-class wealth: median household wealth in 2016 was 34 percent below where it had been in 2007 – this while the household wealth of the top 20 percent of the population grew by 33 percent. Indeed, by 2016, the richest 20 percent of American households owned 77 percent of the country’s wealth – more than three times that owned by the entire middle class (the middle 60 percent of households). Even more striking, the richest one percent of American households owned substantially more than the middle class combined.7 The most striking imbalances in the American crisis and recovery were – as in the expansion that preceded it – among groups in the population. Not only had the rich gotten richer during the boom, they continued to get richer during the crisis and the recovery.

In both Europe and the United States, the crisis and its aftermath highlighted the failures of existing elites to address their societies’ problems. In Europe, the members states of the Eurozone were completely unable to arrive at a reasonable resolution of the Eurozone debt crisis. The catastrophic mess that enveloped the Eurozone was entirely avoidable, and yet the region’s political leaders could not avoid it.8 In the United States, politicians and pundits emphasized the general recovery of the economy – and of the stock market – and focused on the booming prosperity of the big cities. They ignored the fact that vast swaths of the population, including much of the middle class, were worse off than they had been before the crisis.

Existing political institutions, parties, and leaders had failed on two dimensions. There was a failure of compensation: an unwillingness or inability to safeguard the interests of those harmed by international and domestic economic events, while catering to and celebrating the beneficiaries. There was a failure of representation: an unwillingness or inability to accurately reflect and address the needs of large portions of the population.9 For decades since World War Two, in Europe and North America, a centrist consensus had reigned. The center-left and the center-right, for all their differences, agreed on the broad contours of domestic and international economic policies. As large portions of these economies fell farther behind, those left out of the consensus had nowhere to turn – until they did.

The political reaction to these failures was swift. Over the course of 2009, the Tea Party movement swept the United States and the Republican Party, culminating in major successes in primary and general elections in 2010. The movement lay the

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6 Chinn and Frieden 2011, pages 148-149.
7 Wolff 2017; Sawhill and Pulliam 2019.
8 Frieden and Walter 2017.
9 For more details see Frieden 2019.
groundwork for Donald Trump’s populist campaign of 2016 and played a major role in remaking the Republican Party in its, and Trump’s, images. On the Democratic side, Senator Bernie Sanders led the “progressive” wing in attacking Democratic Party moderates. In Europe, populists of the left quickly rose in Greece and Spain, soon taking power in the former and becoming a major political force in the latter. Within a few years, almost every western European country had a powerful populist movement, whether of the Right or of the Left.

Although there were substantial differences among the various populist movements, some things tied them together. They all, to one extent or another, rejected existing political institutions, parties, and leaders. And they all harbored a basic hostility toward economic and political integration. In Europe, the European Union was the principal target; in the United States the target was globalization, “globalism,” and multilateralism in general.

There is not always a direct connection between this sort of populism – especially of the Right – and opposition to globalization. In Europe it often takes the form of opposition to European integration, or of aspects of integration that they see as impinging upon national sovereignty. The target of the hostility might be EU-imposed austerity, in the debtor nations, or EU policies toward regulation or immigration, in other countries. Some in the Trump administration, like some British supporters of Brexit, might argue that their economic nationalism is in pursuit of the ultimate goal of a more open economy. Nonetheless, virtually all these movements share an aversion to “globalism,” and to the kind of international collaboration and integration that has been the norm since the 1940s.

Donald Trump was explicit in speaking to the United Nations in September 2018. “We reject the ideology of globalism,” he said, and promised to “defend against threats to sovereignty…from global governance.”¹⁰ In this context, the future of international cooperation on economic problems – or any problems, for that matter – is in serious doubt.

3. Nationalist populism and international cooperation

Populists of the modern variety have made abundantly clear that they are uninterested in – and often hostile to – the previous elites’ quest for global cooperation. The Trump Administration has eschewed multilateralism in favor of bilateral, or unilateral, action on trade. It is hostile to the World Trade Organization (WTO), ignoring it in most of its actions and actively impeding the work of the Dispute Settlement System. Such central European populists as Hungarian prime minister

Viktor Orban boast about building “a new state built on illiberal and national foundations.” They reject EU oversight of their domestic policies, and EU attempts to allocate refugees and asylum-seekers among member states. They may welcome the openness of European markets to their goods and people, but they resist the attempts of other EU member states to harmonize and coordinate policies and principles.

This is not to take a position on the correctness or less of the populists’ positions. In most instances, there is a logic to their arguments. There is a great diversity of socio-economic realities and political views among the member states of the European Union and attempts to create common policies may well be unrealistic in many arenas. Supporters of the populist nationalists in Europe often argue that integration has gone too far, too fast, and that the EU needs to correct its course and set its integrationist sights lower. This view is also held by some decidedly non-populist observers (such as Mody 2018).

The American populist variant shares with its European counterparts a bitter disdain for elite internationalism, which it blames for inflicting hardship on “the people” and for steering the country away from its traditions. Donald Trump’s 2016 presidential campaign, and his rhetoric in office afterwards, emphasized his dedication to the middle class, and to the country’s industrial base. Trump on campaign, and Trump in office, have been explicitly hostile to globalization. More specifically, the Trump Administration has moved sharply away from the country’s post-war commitment to multilateralism. The Administration’s trade policy, in particular, has been a notable departure from that of past administrations. It has undertaken a series of unilateral measures and bilateral negotiations, most of which are clearly inconsistent with reigning WTO principles. Trade is only one foreign-policy arena in which America’s nationalist populists have largely jettisoned previous patterns of multilateral engagement.

While the specific policies pursued by populists in power are important – especially in the case of the United States – their policy principles are less important than the underlying political realities they reflect. For if it were simply a matter of one political party of two, or among many in the European cases, one might expect an eventual reversion to the strategies of the past. However, there is substantial evidence that the populists – in or out of office – are a political reflection of powerful socio-economic trends that affect most industrial societies. The power of these trends is indicated by the fact that the Democrats have moved in a decidedly more protectionist direction – something evident in the 2016 presidential campaign, when Hillary Clinton felt constrained to disavow the Trans-Pacific Partnership she had helped design. Similar pressures have led many European center-right (and even center-left) parties to move closer to the positions of their populist challengers.

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The new economic nationalists in western Europe and the United States find their principal bases of support in regions of their respective countries that are economically distressed – and, in particular, in regions that have experienced deindustrialization. While, as previously noted, there are many reasons for the loss of manufacturing jobs in rich countries, foreign competition and the relocation of production offshore are prominent causes, and causes that – unlike automation – suggest potential policy responses.

The problems of formerly industrial regions in decline are complex and of long standing, and they are not amenable to quick fixes. Their recovery will require some combination of adjustment policies to soften the blows from technological change and globalization, and structural policies whose impact is likely to be felt only over decades. These regions need substantial improvements in education, in workforce development, and in the economic and social infrastructure. They also need good jobs for their residents, although we have little clear guidance as to the measures best suited to ensure a steady supply of such good jobs.

There are substantial, long-term, structural sources of the discontent that has rippled – or torn – through advanced industrial societies over the past decade. It was probably not preordained that the discontent would be captured and channeled by nationalist populists, largely of the Right but also of the Left. However, that is how the politics developed, and they are unlikely to recede any time soon.

The underlying politics of the present day – and of the present-day backlash against globalization and integration – must be the foundation for any sensible projection of the prospects for international economic cooperation. Current trends would not seem promising even for a maintenance of current levels of cooperation, let alone for their deepening into some meaningful forms of global governance.

4. Global governance: past imperfect, present tense, future conditional

The battle for international economic cooperation will be won or lost on the field of domestic politics. This much seems clear from current trends, and how they have affected international economic relations in the past few years. A look at the history of the successes and failures of global economic integration – and there is a long history to draw upon – is equally instructive.

The central problem of an integrated international economy is to manage the delicate relationship between the demands of international economic collaboration, on the one hand, and the demands of domestic social and political realities, on the
other. The first era of globalization, in the nineteenth and early twentieth centuries, solved this problem by excluding most domestic groups from meaningful participation in political and social life. This proved untenable in the interwar years and led to catastrophe. During the first decades of the post-World War Two order, which we may call the Bretton Woods period, the balancing act was managed with a series of important compromises. As the world transitioned to the “high globalization” of the 1990s and after, that balancing act became increasingly difficult – and its difficulties are central to the problems of today. A short sketch of this trajectory is illustrative.

For decades before 1914, the international economy was roughly as integrated as it is today. That first era of globalization was remarkably successful by the standards of the time. The world economy grew more in the 75 years before 1914 than it had in the previous 750, and there was substantial convergence among countries of the core and lands of recent settlement. Macroeconomic conditions were relatively stable, despite periodic crises and ‘panics.’ None of this is to ignore the uglier sides of the period – colonialism, authoritarian governments, agrarian crises and grinding urban poverty were all parts of the 19th and early 20th century world order. Nevertheless, compared to what had come before – and what came immediately after – this was a flourishing global economy.

And yet that globalized economy came to a grinding halt in 1914. After WWI was over, the world’s political and economic leaders attempted to restore the classical order that had prevailed for so long – and failed. It was not for lack of trying, as conferences, meetings, treaties and international organizations proliferated as never before. But nothing worked; the global economy fragmented and eventually, after the 1929 downturn hit, broke up into trade and currency wars, and eventually shooting wars (Eichengreen 1992 is the classic account).

There are some interesting parallels between the interwar period and the present day. Apart from the superficial similarities between some of the current populist movements and interwar ones – such as the re-use of the America First label by the Trump Administration – there are deeper connections. One is that the regional political base of the Trump Administration, and in particular of its more protectionist trade policies, is to be found in the regions of the country that were the principal sources of isolationist sentiment in the 1920s and 1930s, especially the industrial belt in the Midwest along with states in the Great Plains and the Rocky Mountains. Another parallel has to do with the rejection of multilateralism: the isolationists, along with many Americans, felt that existing international organizations did not accurately reflect the role of the US in the world, and were indeed intended to constrain US influence.

There are two principal lessons of the first era of globalization and its collapse after 1918. First, an open international economy requires collaboration among the major economic powers, especially during periods of economic stress. The 19th-century fiction of self-equilibrating international markets may have applied to particular markets; but it did not apply to the world economy as a whole. For a
globalized economy to persist, especially in the face of periodic crises, the principal financial centers need to cooperate to stabilize markets and safeguard openness.

The second lesson of the collapse of the classical version of globalization is that national governments cannot undertake the measures needed to sustain an open economy if they do not have the support of their constituents. Policymakers must answer to their constituents and if constituents are hostile to the world economy, policymakers who ignore this hostility will cease to be making policy. The stability of the classical gold-standard era in the 19th century and early 20th century was due in part to the fact that the major member states gave few political rights, and little political power, to the middle and working classes and poor farmers. The failures of the interwar period were largely due to the inability of political leaders to sustain classical policies in newly democratic nations. Indeed, by the 1920 almost every industrial country was democratic, and attempts to subject these political economies to gold-standard austerity measures led to a powerful backlash – both against the government, and often against the rest of the world.

The post-World War Two international economic order, planned in broad outlines at Bretton Woods, attempted to find a middle ground between classical gold-standard stability and interwar confusion, while allowing room for more flexible national macroeconomic and social policies. Trade was liberalized, but gradually and with exceptions and escape clauses where liberalization would have been politically difficult. Exchange rates were stabilized, but capital controls limited the degree of financial integration. Social safety nets and the welfare state were accepted as part of the post-war compromise (Lamoreaux and Shapiro, eds. 2019). This system worked well for 25 years. However, economic integration eventually caught up with some of the contradictions in the Bretton Woods order, symbolized by the extent to which the gradual rebirth of international finance undermined the Bretton Woods monetary system.

The march toward globalization started in earnest in the early 1980s, as the Reagan and Thatcher administrations led the developed countries toward greater engagement with global markets. Over the late 1980s and early 1990s, many developing countries jettisoned their previous economic nationalism. When the Soviet Union collapsed and it and most of its former allies embraced economic integration – as China and Vietnam had done long before – it seemed that globalization had triumphed for good.

However, the second age of globalization faced problems parallel to those of the first: international economic forces increasingly bumped up against domestic political pressures. As we have seen, the crisis of 2007-2009 and its aftermath brought these tensions to the fore, as political movements rejected past patterns of economic and political integration – and, in some cases, took power on anti-integrationist platforms. It remains to be seen whether this reflects the end of the second era of globalization, or merely a pause in its onward march.
5. Ways forward

The future of global cooperation, let alone global governance, is in doubt. The principal doubts are about the extent of domestic political opposition to the measures necessary to secure cooperative international economic and political relations. The roots of this opposition are broad and deep, and they cannot be wished or persuaded away. Progress in addressing global problems depends on progress in addressing the domestic problems that underlie the current upsurge of pessimism about, and hostility to, globalization.

A first step in this direction requires recognizing the legitimacy of many of the concerns that populist nationalists have seized upon. Major regions of our economies, and major segments of our population, have faced and continue to face serious economic difficulties. What started with the decline of manufacturing industries in these areas typically has led to broader economic distress, and eventually to grim social problems (Feler and Senses 2017). In the United States, social mobility has declined to alarmingly low levels, especially in the distressed regions (Chetty et al. 2014). Inter-regional mobility has also fallen dramatically, largely due to rapidly rising housing prices in prosperous areas, which makes it difficult or impossible for people to move from areas where good jobs are scarce to areas with more opportunities (Ganong and Shoag 2017).

Both short-term and long-term measures are needed to address the problems of those left out of globalization’s prosperity. In the short run, troubled regions need help in pulling themselves out of what is often a downward spiral. Central governments need to consider “place-based policies” that can address immediate problems effectively (Shambaugh and Ryan, eds. 2018). In the longer run, more structural policies to address regional differences will be important, especially those aimed at improving the economic and social infrastructure, and the educational institutions, in regions that have been struggling.

The contours of effective short- and long-term policies are not necessarily clear. Regions differ, as do countries; what works in one may not work in another. Nevertheless, if the needs of troubled regions, sectors, and people are not addressed, we can reliably expect a continuation and deepening of the current skepticism about international economic and political integration. Those with the most at stake in globalization need to find ways to address the valid concerns of those who regard it with skepticism and fear.

Theory and history demonstrate that an open international economy requires cooperation among the major economic centers. That cooperation in turn requires domestic political support for the measures necessary to help keep the world economy functioning smoothly. Support for globalization and integration has eroded continually over the course of the 21st century. A reversal of this erosion depends on the willingness and ability of supporters of international economic and political integration to demonstrate to their compatriots, with deeds rather than words, that its benefits can be distributed much more broadly than they have been to date.
References


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