**History of Globalisation**

**Adapted from an article in the Guardian – The Rise and Fall of Globalisation 2017**

One curious thing about the pro-globalisation consensus of the 1990s and 2000s, and its collapse in recent years, is how closely the cycle resembles a previous era. Pursuing free trade has always produced displacement and inequality – and political chaos, populism and retrenchment to go with it. Every time the social consequences of free trade are overlooked, political backlash follows. But free trade is only one of many forms that economic integration can take. History seems to suggest, however, that it might be the most destabilising one.

Nearly all economists and scholars of globalisation like to point to the fact that the economy was rather globalised by the early 20th century. As European countries colonised Asia and sub-Saharan Africa, they turned their colonies into suppliers of raw materials for European manufacturers, as well as markets for European goods. Meanwhile, the economies of the colonisers were also becoming free-trade zones for each other. “The opening years of the 20th century were the closest thing the world had ever seen to a free world market for goods, capital and labour,” writes the Harvard professor of government Jeffry Frieden in his standard account, Global Capitalism: Its Fall and Rise in the 20th Century. “It would be a hundred years before the world returned to that level of globalisation.”

In addition to military force, what underpinned this convenient arrangement for imperial nations was the gold standard. Under this system, each national currency had an established gold value: the British pound sterling was backed by 113 grains of pure gold; the US dollar by 23.22 grains, and so on. This entailed that exchange rates were also fixed: a British pound was always equal to 4.87 dollars. The stability of exchange rates meant that the cost of doing business across borders was predictable. Just like the eurozone today, you could count on the value of the currency staying the same, so long as the storehouse of gold remained more or less the same.

When there were gold shortages – as there were in the 1870s – the system stopped working. To protect the sanctity of the standard under conditions of stress, central bankers across the Europe and the US tightened access to credit and deflated prices. This left financiers in a decent position, but crushed farmers and the rural poor, for whom falling prices meant starvation. Then as now, economists and mainstream politicians largely overlooked the darker side of the economic picture.

Over the course of the 1930s and 40s, liberals – John Maynard Keynes among them – who had previously regarded departures from free trade as “an outrage” began to lose their religion. “The decadent international but individualistic capitalism, in the hands of which we found ourselves after the war, is not a success,” Keynes found himself writing in 1933. “It is not intelligent, it is not beautiful, it is not just, it is not virtuous – and it doesn’t deliver the goods. In short, we dislike it, and we are beginning to despise it.” He claimed sympathies “with those who would minimise, rather than with those who would maximise, economic entanglement among nations,” and argued that goods “be homespun whenever it is reasonably and conveniently possible”.

The international systems that chastened figures such as Keynes helped produce in the next few years – especially the Bretton Woods agreement and the General Agreement on Tariffs and Trade (Gatt) – set the terms under which the new wave of globalisation would take place.

The key to the system’s viability, in Rodrik’s view, was its flexibility – something absent from contemporary globalisation, with its one-size-fits-all model of capitalism. Bretton Woods stabilised exchange rates by pegging the dollar loosely to gold, and other currencies to the dollar. Gatt consisted of rules governing free trade – negotiated by participating countries in a series of multinational “rounds” – that left many areas of the world economy, such as agriculture, untouched or unaddressed. “Gatt’s purpose was never to maximise free trade,” Rodrik writes. “It was to achieve the maximum amount of trade compatible with different nations doing their own thing. In that respect, the institution proved spectacularly successful.”

Partly because Gatt was not always dogmatic about free trade, it allowed most countries to figure out their own economic objectives, within a somewhat international ambit. When nations contravened the agreement’s terms on specific areas of national interest, they found that it “contained loopholes wide enough for an elephant to pass”, in Rodrik’s words. If a nation wanted to protect its steel industry, for example, it could claim “injury” under the rules of Gatt and raise tariffs to discourage steel imports: “an abomination from the standpoint of free trade”. These were useful for countries that were recovering from the war and needed to build up their own industries via tariffs – duties imposed on particular imports. Meanwhile, from 1948 to 1990, world trade grew at an annual average of nearly 7% – faster than the post-communist years, which we think of as the high point of globalisation. “If there was a golden era of globalisation,” Rodrik has written, “this was it.

Gatt, however, failed to cover many of the countries in the developing world. These countries eventually created their own system, the United Nations conference on trade and development (UNCTAD). Under this rubric, many countries – especially in Latin America, the Middle East, Africa and Asia – adopted a policy of protecting homegrown industries by replacing imports with domestically produced goods. It worked poorly in some places – India and Argentina, for example, where the trade barriers were too high, resulting in factories that cost more to set up than the value of the goods they produced – but remarkably well in others, such as east Asia, much of Latin America and parts of sub-Saharan Africa, where homegrown industries did spring up. Though many later economists and commentators would dismiss the achievements of this model, it theoretically fit Larry Summers’s recent rubric on globalisation: “the basic responsibility of government is to maximise the welfare of citizens, not to pursue some abstract concept of the global good.”

The critical turning point – away from this system of trade balanced against national protections – came in the 1980s. Flagging growth and high inflation in the west, along with growing competition from Japan, opened the way for a political transformation. The elections of Margaret Thatcher and Ronald Reagan were seminal, putting free-market radicals in charge of two of the world’s five biggest economies and ushering in an era of “hyperglobalisation”. In the new political climate, economies with large public sectors and strong governments within the global capitalist system were no longer seen as aids to the system’s functioning, but impediments to it.

Not only did these ideologies take hold in the US and the UK; they seized international institutions as well. Gatt renamed itself as the World Trade Organization (WTO), and the new rules the body negotiated began to cut more deeply into national policies. Its international trade rules sometimes undermined national legislation. The WTO’s appellate court intervened relentlessly in member nations’ tax, environmental and regulatory policies, including those of the United States: the US’s fuel emissions standards were judged to discriminate against imported gasoline, and its ban on imported shrimp caught without turtle-excluding devices was overturned. If national health and safety regulations were stricter than WTO rules necessitated, they could only remain in place if they were shown to have “scientific justification”.

The purest version of hyperglobalisation was tried out in Latin America in the 1980s. Known as the “Washington consensus”, this model usually involved loans from the IMF that were contingent on those countries lowering trade barriers and privatising many of their nationally held industries. Well into the 1990s, economists were proclaiming the indisputable benefits of openness. In an influential 1995 paper, Jeffrey Sachs and Andrew Warner wrote: “We find no cases to support the frequent worry that a country might open and yet fail to grow.”

But the Washington consensus was bad for business: most countries did worse than before. Growth faltered, and citizens across Latin America revolted against attempted privatisations of water and gas. In Argentina, which followed the Washington consensus to the letter, a grave crisis resulted in 2002, precipitating an economic collapse and massive street protests that forced out the government that had pursued privatising reforms. Argentina’s revolt presaged a left-populist upsurge across the continent: from 1999 to 2007, leftwing leaders and parties took power in Brazil, Venezuela, Bolivia and Ecuador, all of them campaigning against the Washington consensus on globalisation. These revolts were a preview of the backlash of today.

Rodrik – perhaps the contemporary economist whose views have been most amply vindicated by recent events – was himself a beneficiary of protectionism in Turkey. His father’s ballpoint pen company was sheltered under tariffs, and achieved enough success to allow Rodrik to attend Harvard in the 1970s as an undergraduate. This personal understanding of the mixed nature of economic success may be one of the reasons why his work runs against the broad consensus of mainstream economics writing on globalisation.

“I never felt that my ideas were out of the mainstream,” Rodrik told me recently. Instead, it was that the mainstream had lost touch with the diversity of opinions and methods that already existed within economics. “The economics profession is strange in that the more you move away from the seminar room to the public domain, the more the nuances get lost, especially on issues of trade.” He lamented the fact that while, in the classroom, the models of trade discuss losers and winners, and, as a result, the necessity of policies of redistribution, in practice, an “arrogance and hubris” had led many economists to ignore these implications. “Rather than speaking truth to power, so to speak, many economists became cheerleaders for globalisation.”

In his 2011 book The Globalization Paradox, Rodrik concluded that “we cannot simultaneously pursue democracy, national determination, and economic globalisation.” The results of the 2016 elections and referendums provide ample testimony of the justness of the thesis, with millions voting to push back, for better or for worse, against the campaigns and institutions that promised more globalisation. “I’m not at all surprised by the backlash,” Rodrik told me. “Really, nobody should have been surprised.”

But what, in any case, would “more globalisation” look like? For the same economists and writers who have started to rethink their commitments to greater integration, it doesn’t mean quite what it did in the early 2000s. It’s not only the discourse that’s changed: globalisation itself has changed, developing into a more chaotic and unequal system than many economists predicted. The benefits of globalisation have been largely concentrated in a handful of Asian countries. And even in those countries, the good times may be running out.

Statistics from Global Inequality, a 2016 book by the development economist Branko Milanović, indicate that in relative terms the greatest benefits of globalisation have accrued to a rising “emerging middle class”, based preponderantly in China. But the cons are there, too: in absolute terms, the largest gains have gone to what is commonly called “the 1%” – half of whom are based in the US. Economist Richard Baldwin has shown in his recent book, The Great Convergence, that nearly all of the gains from globalisation have been concentrated in six countries.

Barring some political catastrophe, in which rightwing populism continued to gain, and in which globalisation would be the least of our problems – Wolf admitted that he was “not at all sure” that this could be ruled out – globalisation was always going to slow; in fact, it already has. One reason, says Wolf, was that “a very, very large proportion of the gains from globalisation – by no means all – have been exploited. We have a more open world economy to trade than we’ve ever had before.” Citing The Great Convergence, Wolf noted that supply chains have already expanded, and that future developments, such as automation and the use of robots, looked to undermine the promise of a growing industrial workforce. Today, the political priorities were less about trade and more about the challenge of retraining workers, as technology renders old jobs obsolete and transforms the world of work.

Rodrik, too, believes that globalisation, whether reduced or increased, is unlikely to produce the kind of economic effects it once did. For him, this slowdown has something to do with what he calls “premature deindustrialisation”. In the past, the simplest model of globalisation suggested that rich countries would gradually become “service economies”, while emerging economies picked up the industrial burden. Yet recent statistics show the world as a whole is deindustrialising. Countries that one would have expected to have more industrial potential are going through the stages of automation more quickly than previously developed countries did, and thereby failing to develop the broad industrial workforce seen as a key to shared prosperity.

For both Rodrik and Wolf, the political reaction to globalisation bore possibilities of deep uncertainty. “I really have found it very difficult to decide whether what we’re living through is a blip, or a fundamental and profound transformation of the world – at least as significant as the one that brought about the first world war and the Russian revolution,” Wolf told me. He cited his agreement with economists such as Summers that shifting away from the earlier emphasis on globalisation had now become a political priority; that to pursue still greater liberalisation was like showing “a red rag to a bull” in terms of what it might do to the already compromised political stability of the western world.

Rodrik pointed to a belated emphasis, both among political figures and economists, on the necessity of compensating those displaced by globalisation with retraining and more robust welfare states. But pro-free-traders had a history of cutting compensation: Bill Clinton passed Nafta, but failed to expand safety nets. “The issue is that the people are rightly not trusting the centrists who are now promising compensation,” Rodrik said. “One reason that Hillary Clinton didn’t get any traction with those people is that she didn’t have any credibility.”

Rodrik felt that economics commentary failed to register the gravity of the situation: that there were increasingly few avenues for global growth, and that much of the damage done by globalisation – economic and political – is irreversible. “There is a sense that we’re at a turning point,” he said. “There’s a lot more thinking about what can be done. There’s a renewed emphasis on compensation – which, you know, I think has come rather late.”