

mintessay

Globalization and its political backlash

Economic integration with the world has led to a domestic fragmentation of societies within nations

DEEPAK NAYYAR

is emeritus professor of economics, Jawaharlal Nehru University, New Delhi. He served as chief economic adviser, government of India, from 1989 to 1991, and as vice chancellor, University of Delhi, from 2000 to 2005.

The election of Donald Trump as the next president of the US is news that has surprised most psephologists and analysts. But this outcome was not entirely unexpected when situated in its wider global context.

There is turbulence, if not turmoil, in politics almost everywhere in the world. Electoral outcomes or referendum results are uncertain and unpredictable. People as citizens are frustrated with, even alienated from, their governments. This is so despite enormous material progress since 1980, probably because of its highly unequal distribution between people within countries. And it is political democracy, where it exists, that has enabled people to voice their discontent.

This period, spanning one-third of a century, has been characterized by the ascent of markets and the march of globalization, which has exercised a profound influence on the well-being and lives of people. For some, globalization has opened the door to opportunities and wealth creation. For many, unemployment and poverty, which existed earlier, persist, but globalization may have accentuated exclusion.

There are few winners. There are many losers. Asset-owners, profit-earners, rentiers, the educated, the mobile and those with professional skills are the winners, whereas asset-less, wage-earners, debtors, the uneducated, the immobile, and the semi-skilled or the unskilled are losers.

The big winners are the super-rich and ultra-rich everywhere, and the middle class in emerging economies. The big losers are the working class and the lower-middle class in industrialized countries or the poor and the marginalized in developing countries.

This has led to dramatic increases in economic inequality among people within countries. The national income share of the poorest 50% of the population has contracted almost everywhere, while the share of the richest 1% has risen rapidly everywhere. Globalization is not the only reason but is an important underlying factor.

The problem has been accentuated since the financial crisis. The Great Recession, which followed in its aftermath, persists even now. Recovery is slow, uneven and fragile. In a few countries where output has recovered, employment has not. Unemployment levels are high. In European Union (EU) countries, the average rate of unemployment is more than 10% of the workforce, while it is more than 20% in Greece and Spain. The youth unemployment rate, mostly new entrants into the labour market, is almost 25%.

There has been a stagnation in real incomes of blue-collar and white-collar workers in rich countries. In the US, there has been no increase in real wages since the early 1970s for almost 90% of the workforce.

The share of wages in national income has fallen in both rich and poor countries. The quality of employment has also deteriorated, as permanent employees turn into contract workers. For such people, there is no security of employment. Indeed, their superannuation and health-

care benefits provided by employers also cease. The dilution of social protection and the privatization of risk have made them even more vulnerable.

Economic integration with the world has led to a domestic fragmentation of societies within nations. For more than a decade now, some economists, including me, have warned that such outcomes are ethically unacceptable and politically unsustainable. Indeed, I argued that globalization was neither the end of history as some believed nor the end of geography as some hoped. Economies may have become global. But politics is national. And the political backlash, which was predictable, is here.

The focus of earlier concerns was on the exclusion of people, regions and economies in the developing world. But the industrialized world was subjected to the same process, because asymmetrical inclusion and exclusion is in the logic of markets and globalization. Thus, the political consequences of economic outcomes associated with markets and globalization have surfaced in poor and rich countries alike.

The backlash in politics, from people, is far more visible in industrial societies. There is a disillusionment with mainstream political parties, an anger with the establishment, whether the political class or economic elites, and an exasperation with choiceless democracies. Citizens seek to reclaim accountability from their governments, which has been ceded to financial markets or multilateral institutions. Openness in trade, migration and investment is seen as a threat. There is a reassertion of national and cultural identities, which has created space for populist movements to exploit the disaffection.

The discontents are similar, though not quite the same, in developing countries. But these are attributable to jobless growth, rising inequality and persistent poverty. However, the political backlash is less discernible for three reasons. In emerging economies, rapid economic growth has provided benefits to a rising middle class and brought about a reduction in absolute poverty. The literati, the influential and the media, who have voice, believe in the magic of markets and globalization. Many developing countries still have authoritarian regimes, and even where political democracy exists, citizens are not empowered enough. Yet, there is a crisis of expectations. The consumption patterns and lifestyles of the rich, vivid in advertising on television, have powerful demonstration effects. And disaffection is growing.

The manifestations of the political backlash in rich countries is headline news. In the US presidential race, the left-of-centre Bernie Sanders came close to snatching the nomination from the centre-right Hillary Clinton supported by the Democratic Party establishment. But it was the ultra-right Donald Trump who not only trounced the Republican Party establishment by clinching the nomination but also vanquished the entire American establishment by winning the election. This outcome, which I strongly dis-



MANDEL NGAN/AFP

like, validates the hypothesis about the anger among people with mainstream politics and the ability of the populist-nationalist far-right to capitalize on this sentiment.

In the referendum on whether Britain should remain in, or leave the EU, the vote for Brexit came from people who believed that they were the losers from integration with the EU. In retrospect, this was a sign of times to come.

The discontents in continental Europe have also surfaced in its politics. In France, the Socialists are staring at defeat in the 2017 presidential election and will have to decide whether they will vote for a conservative to stop the ultra-right Marie Le Pen. The far-right nationalist-populist political parties are emerging as a significant force in Austria, Denmark, Germany, Finland, Netherlands and Sweden.

Latin America provides an interesting contrast. The early 2000s witnessed extraordinary change as 10 countries elected Left governments. This happened because an adoption of neo-liberal economic prescriptions imposed real hardship on people—higher unemployment, lower incomes, rising inequality—during the 1980s and 1990s. These governments were recently ousted in Argentina, Brazil, Chile, Guatemala and Venezuela for corruption or economic mismanagement. But left-of-centre governments continue with popular support in Bolivia, Ecuador, Nicaragua and Uruguay.

It would seem that political parties on the right and far-right are capturing the space created by the unequal economic outcomes associated with markets and globalization. They have exploited the failures of mainstream political parties and the

resentment of people against the establishment. Their political mobilization of economic discontents is based on opportunism and populism.

In the US and Europe, trade and immigration are rallying points preying on concerns about employment and wages. Cultural identity is deftly woven into a tirade against immigration, while religious conservatism is invoked for rousing anti-Islamic sentiments.

The outcome is paradoxical. In this situation, there was both opportunity and space for left-of-centre politics. But it is not even on the horizon.

Social democracy began life across Europe in the late 19th century with the objective of correcting the excesses of markets and capitalism to protect the working classes. It was reinvented in 1945 to counter possible Soviet influence. It did so by introducing universal adult suffrage in democracy, accepting the beginnings of decolonization, evolving the welfare state and stressing the pursuit of full employment. However, starting around 1980, social democratic parties started forgetting their *raison d'être* and were gradually co-opted by markets and globalization. They moved to the centre-space in politics so that their ideology was no longer a point of reference. It is no surprise that there was a progressive erosion of their constituencies in politics.

The communist parties, or their offspring on the Left, did not survive the collapse of communism in the USSR and Eastern Europe. It dealt a severe blow to their credibility, legitimacy and identity. Their reluctance to invoke nationalism against markets and globalization was understandable. But they were also unable to get away from their belief systems embedded in the past. It is no surprise that the orthodox Left was unwilling and unable to reinvent itself in an altogether changed world.

Even so, there is a Left that has emerged. Podemos in Spain and Syriza in Greece are new entrants into mainstream politics. Bernie Sanders occupied that space in the Democratic Party in the US for a time in the primaries, while Jeremy Corbyn leads the Labour Party in Britain with little parliamentary support. The new left radicalism is inclusive, secular and egalitarian. But it is, at best, a critique of neo-liberalism and a symbol of revolt, with a reiteration of left-wing beliefs from yesteryear. It has not yet provided an alternative political manifesto or a different economic thinking to chart a way forward.

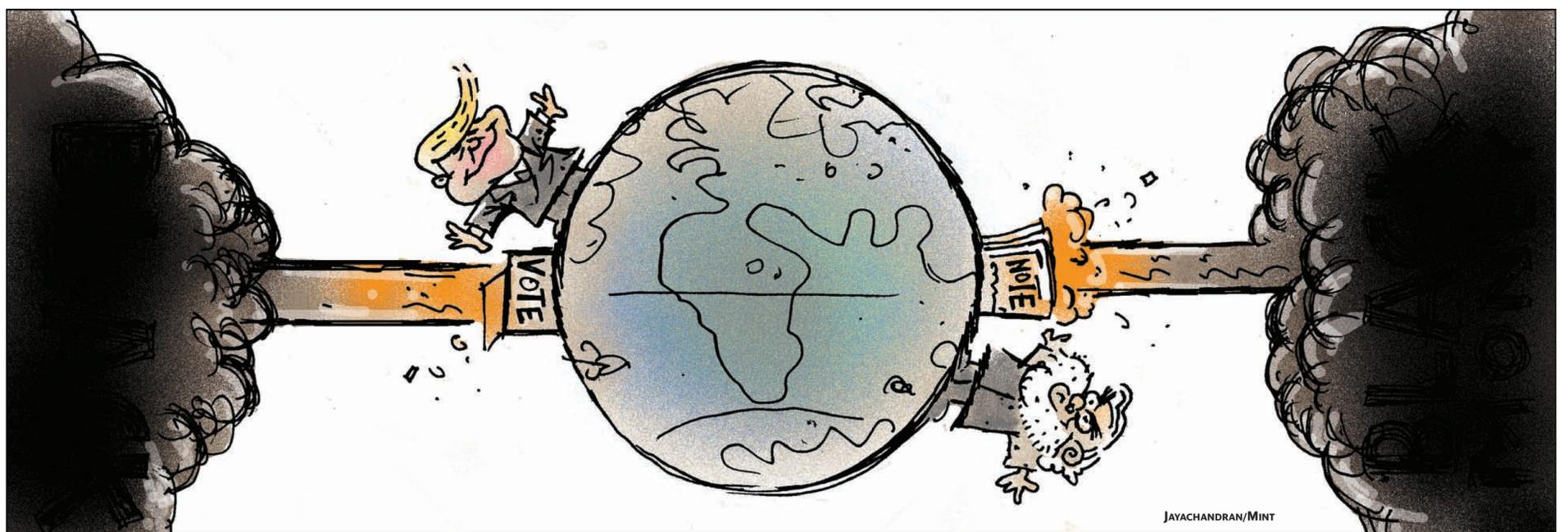
The irony is striking. Political democracies need the Left to provide checks and balances. The far-right can only divide fragmented societies further, whereas left-of-centre parties, even in opposition, can reconcile if not bridge such divides. The far-right would erect barriers at national borders, whereas left-of-centre parties would seek to regulate markets and manage globalization to serve the interests of people.

If ideologies in politics are cyclical, there is reason for hope.

Comments are welcome at theirview@livemint.com

A reassertion of national and cultural identities, has created space for populist movements to exploit the disaffection

drawbridge



JAYACHANDRAN/MINT