

## **The Past, Present, and Future of Globalization**

**Maurice Obstfeld, University of California, Berkeley**

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Michael Klein:

I'm Michael Klein, Executive Editor of EconoFact, a nonpartisan web based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at [www.econofact.org](http://www.econofact.org).

Michael Klein:

We've seen a rise of nationalism across many countries. With the elections of Donald Trump, Jair Bolsonaro in Brazil, Victor Orban in Hungary, and Narendra Modi in India, to name just a few. Nationalism is often driven by ethnic, racial, religious, or political identifications. And there's an important economic component as well. Globalization, which many view as the opposite of nationalism is seen as a central source of economic dislocation, rising inequality, and the presence of immigrants who don't fit some people's vision of the nation.

Michael Klein:

Nationalist economic policies threaten the post World War II structure of international economic linkages and rules based institutions. Institutions that were created in response to the destructive nationalism that deepened and lengthened the Great Depression of the 1930s. What drives the tension between nationalism and globalization? What is a prospect for greater international cooperation? And what is the likelihood of this occurring?

Michael Klein:

To address these questions and to offer some historical context, I'm very happy to welcome him back to EconoFact Chats, Maurice Obstfeld of U.C. Berkeley. Maury is widely recognized as one of the world's leading experts in international economics. He served as a member of President Obama's council of economic advisors, and from 2015-2018, he served as the chief economist at the International Monetary Fund. Maury, welcome back to EconoFact Chats.

Maurice Obstfeld:

Thank you, Michael. It's great to be here.

Michael Klein:

It's wonderful to have you on again. Maury, globalization is a vague term. Can you explain a bit more specifically what economists mean when they talk about globalization and what's been its path over the past century and a half?

Maurice Obstfeld:

Economists generally view globalization as the integration into global markets of countries, economies, which entails a free movement across borders of goods, services, financial assets, even people. And more broadly, these days, information.

Michael Klein:

And what's happened to globalization over the last 150 years or so?

Maurice Obstfeld:

Well, globalization reached a high level toward the end of the 19th century and into the beginning of the 20th century, although it was a very different form of globalization. It was partially based on the existence of large empires, the British Empire, the Austro-Hungarian Empire. As a result of World War I and then the Great Depression, globalization plummeted. And then it gradually came back in the postwar era, especially after the fall of the Soviet Union, and the Soviet Bloc more generally around 1990.

Michael Klein:

You talked about the increase in nationalist policies during the Great Depression of the 1930s, and these policies restricted trade and international borrowing and lending. And they also sought efforts to undercut other countries through cheapening currencies; a distant mirror of the similar turn to nationalism that we saw in the wake of the 2008 financial and economic crisis. In an article you recently wrote you quote John Maynard Keynes' 1933 speech in Dublin that argued for turning away from foreign entanglements.

Maurice Obstfeld:

Yeah, well, Keynes had been a free trader early in his life, a sort of doctrinaire free trader. And in this 1933 speech called 'National Self Sufficiency,' he argued that the world was in a very difficult period with depression, with the rise of totalitarianism in Germany and in the Soviet Union. And if democracy, and democratic capitalism were to survive, countries would really need to experiment on what source of policies would best restore domestic prosperity. Remember, at that point, he hadn't yet written the general theory. And he felt that it might be easier for countries to experiment if some aspects of international integration were limited.

Maurice Obstfeld:

For example, flows of what he called hot money, between countries, speculative capital movements which were a big feature of that period. I don't really regard that as a wholesale endorsement of economic nationalism. Even though the general theory was a model of a domestic economy and how a domestic government could meet domestic needs, Keynes also held out the hope in that book that if countries could develop the tools and deploy the tools that would restore prosperity, then they might also engage in mutually beneficial international trade. And his work on the Bretton Woods system was an attempt to bring that vision to reality.

Michael Klein:

Right. So as you mentioned, Keynes was one of the principles at the Bretton Woods Conference in 1944, and that helped create the post-war international monetary system. And then a year later in 1945, he gave a speech in front of the House of Lords defending the Bretton Woods Treaty. The Bretton Woods system lasted until 1973, but there were these irreconcilable economic tensions. And there's also a push by President Nixon to end the Bretton Woods system at that time. Famously around that time when there were these concerns about the dollar, Treasury Secretary, John Connelly, said in a high level group of 10 meeting, "It's our currency, but it's your problem."

Maurice Obstfeld:

Well, at that time, we're in August at the 50th anniversary of when President Nixon renounced the central plank of the Bretton Woods system, which was the U.S. promise to redeem foreign exchange holdings of dollars by foreign central banks for gold at \$35 an ounce. At the time, the U.S. was suffering from a

number of economic problems, growing inflation, and also a sense that its export competitiveness had been undercut by the growing export success of Japan, of Germany, of other European countries. It was a set of forces, not unlike what we have seen more recently with China's rise. And Nixon had a view that the U.S. had to do more to preserve its position. It had to do it without the enthusiastic agreement of its allies who could be pressured, which is what he did.

Maurice Obstfeld:

And interestingly, he also held similar views in the defense arena. He wanted the U.S. to scale back its support for defense expenditures in the Pacific region, which it had been bankrolling. And so, it's kind of a prologue to some of the themes that we saw during the Trump presidency, but driven by many of the same forces. Nixon didn't intend to bring down the Bretton Woods system. But with the U.S. starting to look out for its own interests more according to the Nixon doctrine, any hope that that system could be maintained was vain. And by 1973 exchange rates were floating, of course, the centerpiece of the Bretton Woods system was fixed rates. So we entered this modern era of fiat currencies and floating rates.

Michael Klein:

Maury, you also talked before about the collapse of the Soviet Union in 1991, and it seems that the move towards greater financial liberalization and the globalization of capital was at least in part fueled by that event. At that time it seemed that global capitalism won and state controlled economies lost the battle for intellectual ascendancy.

Maurice Obstfeld:

The global liberalization of capital movements began earlier. It began, I think, the latest in the early 70s, when the abandonment of this commitment to fixed exchange rates allowed countries to liberalize without a fear of balance of payments crises of the type that had become very common by the late 60s and early 1970s. But it was also driven by other factors, notably the lobbying efforts of financial interests who were very interested, particularly in the U.S. case in having the U.S. be the leading financial power, and in the UK case where the Euro-Dollar market was established in London in the 1950s, in regaining some of Britain's past glory as a financial center.

Maurice Obstfeld:

And then you add into this the growing influence of conservative economic policy viewpoints, which reached dominance in policy circles under the Reagan administration in the U.S. and Margaret Thatcher's government in the UK, and you had significant forces pushing for liberalization. The collapse of the Soviet Union, I think provided a further impetus to that. And you can see the explosion and financial integration taking off at that point with also a number of developing countries, not fully opening their financial markets but liberalizing considerably. And I think you're right, that part of this was a sense that the Soviet model had failed, that capitalism was the wave of the future. And that opening up to capitalism, this was sometimes characterized as the Washington Consensus, was a sure path to growth.

Michael Klein:

Well, this globalization of capital led to many things. And one of the things it led to seems to be the financial and economic crisis in 2008, with the development of new financial instruments and so on. And that crisis helps spur the push against globalization. Of course, there are anti-globalization protests before this, but it seems that there was a rise of nationalism, both on the right and on the left as a consequence of the events of September 2008 and the subsequent economic downturn. Maury, you wrote in another recently published article, that in principle, economic policies aiming to further purely domestic objectives like low unemployment and low inflation, these nationally focused policies can be perfectly consistent with a high degree of global economics. But why is this difficult to achieve in practice?

Maurice Obstfeld:

Well, one force that has been pushing in the direction of anti globalization has been inequality. And in particular, some of the adverse labor market outcomes that have been associated with, although not by any means entirely caused by, trends in the way production is organized in the international economy. And I don't want to imply that inequality, that economics explains everything. A lot of it is cultural as well. But certainly the inability of governments to offset some of the negative distributional effects, the negative regional effects of both trade, but also of technological change, has led to disenchantment with globalization across the political spectrum. And I think the 2008 crisis, in particular, led to widespread disillusionment with government in general, with governing elites, with expertise, in particular, economic expertise, but not restricted to skepticism about economic expertise, and has had a pervasive effect that it took a while for us to really grasp.

Michael Klein:

So, currently both parties are in the trade skeptic camp. President Biden has not reversed most of former President Trump's tariffs. And his trade representative, Katherine Tai, has argued for using tariffs as a policy tool.

Maurice Obstfeld:

The Democrats have been in the trade skeptic camp for a long time. Organized labor began to oppose trade liberalization in the late 1960s -- precisely in that period I mentioned -- when Nixon administration was getting worried about export competition from Europe and Japan. But what has been new is the Republican about face on trade. When I was in the Obama administration, the President's Trade Promotion Authority to try to get TPP across the finish line was passed with mostly Republican support, but President Trump's administration, his campaign and his administration, revealed that an important part of the Republican base was not committed to free trade principles or conservative economic principles, but viewed trade as a threat to the American way of life, viewed it as something that had been foisted on the U.S. by technocratic elites, and put immigration in the same bin. And Republicans had long been more favorable to immigration than Democrats. That has obviously changed as well. So that's another aspect of globalization where the Republican party has completely changed its position.

Michael Klein:

So, Maury, what do you see as the future of globalization as compared to nationalism? And what are the broader implications of that?

Maurice Obstfeld:

The outlook is not a particularly good one. We're seeing a huge struggle in the Congress right now over the expansion of social programs, without which it's hard to imagine globalization being more widely embraced by voters. In Europe, the welfare state is more advanced. But a danger is that prevalence of anti-immigrant sentiment, which has been fueling right wing movements there, could turn voters against the welfare state. In fact, one of the theories put forth by Alberto Alesina, Ed Glazer, and Bruce Sacerdote some years ago about why the U.S. welfare state is so minimal compared to Europe is simply that, ethnic diversity makes it politically more difficult to put in place public goods of the type that prevail in Europe.

Maurice Obstfeld:

So those are, I think, negative factors for the future. And more generally, I don't think the COVID experience has been a particularly favorable one for the prospects of globalization. Not only is there a

concern about the nature of supply chains where you can make the case that the just in time supply chain is maybe too risky. Maybe we should move to 'just in case supply chains,' with more diverse production capabilities around the world. But I don't think voters are going to necessarily see it like that. And we don't know what trade policy will bring down the road, either in this administration or in future administrations.

Michael Klein:

Is there a special role that the U.S. China set of tensions is playing in either a move towards greater globalization or a move towards greater nationalism? I guess it would be the latter, wouldn't it?

Maurice Obstfeld:

Well, I think if anything, it's the latter. There's the danger of the world evolving into great power blocks which may cooperate to some degree, but may be in conflict, including on trade issues and especially in the technology space, where technology intersects with security. So that's something else I think we need to worry about.

Michael Klein:

And now the need for cooperation is especially high with the pandemic and with climate change. But it seems like you're saying the prospects for that are not that good.

Maurice Obstfeld:

Unfortunately, the trend toward more nationalistic thinking has brought with it greater skepticism about international institutions and international cooperation. But those are more necessary than ever before. They're necessary in the public health arena. And the recent crisis has illustrated some of the holes in public health cooperation, which previously some had thought to be relatively successful. Remember, we eradicated smallpox in the late 1970s as a result of cooperation that brought together cold war adversaries. But what we saw in the current crisis was disrupted supply chains, export restrictions at some stages. We're seeing vaccine nationalism. And the shocking fact that in the poorer countries, something like under 3% of the population is vaccinated. When it's clearly in the interest of the richer countries to expand the umbrella of vaccination to prevent the emergence of variants. Climate is obviously, if anything, an even bigger threat. And there we'll see what happens in COP26. But climate, like public health, remains, at least in the United States, a political football. And if the U.S. is divided over these issues, it's hard to see how the global community can move ahead.

Michael Klein:

So the term, beggar-thy-neighbor policies came about in the 1930s, when countries, as I mentioned, were trying to undercut each other with exchange rate depreciations. And I guess we're seeing something like beggar-thy-neighbor now with what's happening with vaccines, and maybe 'beggar-everybody' with climate problems. So it's a real problem. Maury, any words of optimism to close out this podcast?

Maurice Obstfeld:

You haven't caught me in a really optimistic mood, Michael, but I think ultimately we find that reality wins out. The problem is that it may not win it quick enough. So, the facts are on the side of cooperation. After the disasters of the inter war period in World War II, the global community did set up some cooperative mechanisms which served it quite well. The question is whether we will have to go through a comparable period of disarray before we come to our senses as a global community. I hope not.

Michael Klein:

Well, in a different context, didn't Churchill say something about the United States that we can be counted on to do the right thing after every other option was exhausted. So maybe we'll get to that point and I can only hope so.

Maurice Obstfeld:

Yeah. He also said that, democracy is the worst form of government, except for all the others that have been tried. So we should hope that our democracy leads to the U.S. doing the right thing eventually. If we keep our democracy.

Michael Klein:

If we keep our democracy. Well on that somewhat, kind of, sort of, hopeful note, I'll thank you Maury, for joining me again on EconoFact Chats. And of course, at EconoFact, what we're trying to do is in fact to get the facts out there to help perhaps speed up the transition to better policies. So thanks again for being on.

Maurice Obstfeld:

Always a pleasure.

Michael Klein:

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