

The World In 2021

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With the dawning of 2021 some of us are experiencing an emotion that has become unfamiliar recently: optimism. The four long years of the Trump presidency are over. Instead of a deeply troubled egotist incapable of empathy and devoid of humour, the most powerful nation in the West – if not necessarily the world – is going to have as president a competent, consensual politician and a manifestly decent man. Thanks to the extraordinary talent and unselfish work of many thousands of scientists, there is hope that Covid-19 will soon be defeated and that our lives can return to something like normality. And, closer to home, the long-running saga of the UK's exit from the European Union has finally come to an end, for better or worse. The deal is a pretty thin one, and many people's lives will be damaged by it, but at least we know what the situation is and can begin to adjust to the new reality. There is something to be said for that too.

At the same time, many of the underlying problems that gave rise to Trump and Brexit are still with us and Covid-19 has laid bare a host of others. Another reason for optimism, perhaps, since problems that are hidden are generally not solved. And perhaps Trump's departure will allow us to debate some of these issues in a less ideologically charged atmosphere.

The 2016 Brexit referendum, and the US presidential election that followed, were closely fought affairs. People voted to leave the European Union, or voted for Trump, for diverse reasons, and when the margins of victory are as tight as they were it makes little sense to seek to prioritise one reason over all others. Every one mattered. It would be wrong to deny the role of nationalism, xenophobia, and outright racism in the upheavals of 2016, but it would be equally ideological to deny that rising inequality, both between classes and between regions, was also at play, or that globalisation was one factor underlying that trend. There now exists abundant empirical evidence, produced by social scientists with no ideological axe to grind, showing a link between rising imports from China, poorer employment and income outcomes, and growing political polarisation.¹ It doesn't follow that President Trump was right to start trade wars, or undermine the World Trade

Organisation, but neither should we hide our heads in the sand and pretend that the problems he benefited from electorally do not exist.

Indeed, 2020 has revealed in dramatic fashion the depth of these inequalities. We have all seen how poorer workers have had no alternative but to work in dangerous conditions, putting their health in danger, and we have also seen how precarious their jobs and salaries can be. In sharp contrast, people like myself were able to work from home during the lockdowns of 2020, still drawing stable incomes, and protecting themselves and their loved ones from the virus. We have also seen that it is these lower paid workers upon whom society ultimately relies. The world could have done perfectly well without me in 2020, but it could not have done without them. The issue of inequality is not going to go away any time soon.

2020 also revealed new problems associated with actually-existing-globalisation. In the early months of the pandemic firms found it difficult to source components from China. Later, there were well-publicised problems associated with obtaining medical supplies. The concept of the spring was resilience – was our system capable of coping with very large and unexpected shocks? The market economy is very good at minimising costs, but that can become problematic when doing so involves putting all one's eggs in one low-cost basket. Similarly, attempts by national governments to maximise efficiency and minimise costs when it comes to the provision of national health services may make sense in normal times, but become a major problem when a major shock arises and there is no surplus capacity available.

In the event, the market adjusted remarkably quickly, and stories about scarce medical supplies faded away. But the events of the last year lent support to those who argue that, in a world where there always may be a black swan around the next corner, the logic of ruthless cost minimisation has had its day. One of those black swans may be the country where the virus originated. 2020 was also the year that saw China tear up its international legal obligations with respect to Hong Kong and brutally suppress democracy there. It was the year that saw Australian exports to the country targeted for strictly political reasons, in defiance of international trade norms. It was the year that saw clear evidence that international supply chains operating in China depend on the forced labour of a persecuted religious minority. Both the outgoing and incoming US Administrations regard what is happening to the Uighurs as 'genocide', and a court somewhere may eventually agree with them. And it was the year of 'wolf warrior' diplomats, pursuing an

increasingly aggressive and nationalistic agenda overseas. The hope, which I share, has always been that by embedding China in the global economic system the Chinese Communist Party will be incentivised to respect the norms of the international community. But what if the strategy doesn't work?

2020 hasn't dispelled concerns about globalisation, therefore. And the past four years might seem to provide us with an unpalatable choice. On the one hand, there is Trump, who promised to help the left behind, but combined protectionism with nationalism and xenophobia. And on the other, there is Davos man, cheerleader for the globalisation of the early twenty-first century, who ignored inequality, ignored the financial instability that unfettered capital flows can give rise to, praised the austerity following the Great Recession in Europe that was so unnecessary, and caused so much economic and political damage, and dismissed all dissenting voices as 'populist'. Surely we can do better.

If we want to do better, the first step will be to move beyond the naïve binary choice presented in the preceding paragraph. It's worth pointing out that practising academic economists never thought in those terms, or fell neatly into either box. We are as a tribe instinctively opposed to protectionism, but as academics we are also comfortable with complexity. Opposing Trump's protectionism doesn't mean that we think that markets (including international ones) always work, or that inequality isn't a problem, or that globalisation might not affect income distribution, or that the Eurozone's tilt towards austerity in 2010 was not a disaster. Of course it was, and we said so at the time.

We therefore need to distinguish between internationalism and a naïve belief in markets: moving beyond Davos is the way to shore up a multilateral international system at a time when the world badly needs one. This implies a progressive political programme that can and should shape the decades to come.

First: the experience of the past decade has shown conclusively that even if you are not interested in inequality, inequality may be interested in you. We cannot hope to overcome hostility towards markets in general, and globalisation in particular, without providing decent jobs at fair wages for our fellow citizens. Regional policies, minimum wages, education, pensions, healthcare, the regulation of casual labour contracts: all of these issues and others like them should be on the agenda of people who want to maintain our generally open economies. Safety nets are essential but insufficient, since

people want the dignity associated with work. If providing that requires the government to intervene in various ways to provide the jobs, so be it. Without a state that actively seeks to provide that which the market on its own cannot, voters will eventually rebel against the market and those who defend it. It's really important that President Biden improves the lives of ordinary people over the next four years, and it is equally important that governments in Europe do the same.

Second: international agreements can and should be a vehicle for levelling *up* labour and environmental standards. They should not facilitate those who wish to avoid regulations required for the common good. This is not a utopian goal, since trade agreements have played such a role in the past. Economic historians have shown that concerns about market access provided late nineteenth-century governments with a sufficient incentive to tighten labour regulations to the levels demanded by prospective trade partners.² One of the main purposes of the original European Economic Community was to provide firms with the benefits of a larger market, while preventing a destructive race to the bottom. The recent trade agreement between the EU and the UK included stringent level playing field requirements: Europeans hope that these will incentivise future UK governments not to diverge from European consumer, labour, and environmental standards, and unfairly harm European firms. Governments from around the world are now attempting to find a solution to the problems of tax injustice caused by the activities of multinational firms, working through the OECD.

Some of these attempts to find common solutions to common problems may not please everyone in Ireland. The tax issue in particular threatens Irish tax revenues, while the level playing field provisions of the EU–UK trade treaty may also cause us difficulties in the future. As I write these words January has not yet come to an end, but the UK government has already signalled that it wants to authorise the use of pesticides harmful to bees, and get rid of EU worker protections such as the 48-hour week. The direction of travel seems clear, and sooner or later the implication may be that tariffs are added to the non-tariff barriers which are already making trade with the UK more difficult. Ireland may be particularly affected by that. In the long run, however, it is important for Ireland, a highly globalised economy, that the world economy remains reasonably open. We therefore have an enlightened self-interest in making sure that the political basis for that is not only retained but strengthened. Who could deny that tax avoidance by multinationals is

undermining public support for globalisation? And if other recent free-trade agreements had had as many level playing field provisions as the EU–UK one, they might not have aroused as much political controversy as they did. Perhaps the deal will serve as a model in future trade negotiations, including with countries more powerful than the United Kingdom?

Third: we need to be wary of classifying every government intervention that influences trade flows as ‘protectionism’. The inequalities that led to Brexit and Trump were largely regional, and there is no reason to believe that the market on its own will reduce them. Indeed, the logic of agglomeration suggests that markets will probably exacerbate them. Regional policies providing the infrastructure needed to level regions up, and in some cases providing jobs directly, need to be on the political agenda throughout the West. Perhaps the shift towards home-working caused by the pandemic may help here. Similarly, greater resilience isn’t just going to happen on its own: firms are too concentrated on short-term profits. State intervention may therefore be needed to build up stockpiles of strategic goods of one sort or another, to make sure that supply chains are diversified, and to ensure the survival of strategically essential industries. State intervention is certainly going to be needed to manage the energy transition. That will probably affect trade flows in all sorts of ways: so be it.

Fourth: the virus has taught us that nature really doesn’t care about our business models, our preferences, our habits. It doesn’t distinguish between Europeans, Asians, Americans, or Africans. It does whatever it is going to do regardless. The big lesson of 2020 is that there was no trade-off between a healthy society and a sound economy. Rather, there was an existential threat to human health that had to be faced down. Countries that made this their sole priority saved lives and reaped the economic rewards. Countries that tried to balance priorities failed to achieve either. There are two obvious lessons for the future. The first is that we will need to respond in a much more radical and determined manner the next time – because one thing that we can be fairly certain of is that there will be a next time. It makes little sense to prioritise the maintenance of quarantine-free international travel, for example, on the basis that clamping down on such travel would be unthinkable, if the ultimate impact is to stop people from travelling more than two kilometres from their home. The second is that we need to make tackling the climate crisis the central goal of the rest of our lives. Just because the predicted impacts of global warming seem unthinkable doesn’t mean that they won’t happen.

We have known this intellectually for quite a while, but now we know it emotionally as well. Perhaps that is a cause for optimism. And the climate crisis is of course a classic case where we really do need internationalism, but where we simply cannot afford unfettered markets. We need to break the intellectual and political link between the two.

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Notes

- 1 See for example D H Autor, D Dorn & G H Hanson, 'The China Syndrome: Local Labor Market Effects of Import Competition in the United States', *American Economic Review*, vol. 103 (6) (2013), 2121–68.
- 2 M Huberman & C M Meissner, 'Riding the Wave of Trade: The Rise of Labor Regulation in the Golden Age of Globalization', *The Journal of Economic History*, vol. 70 (3) (2010), 657–85.