

Globalization and elections

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Key points:

- Elections today seem to oppose supporters and opponents of globalization (winners and losers of this phenomenon), rather than the traditional left and right.
- Opponents of globalization are gaining strength. This has some advantages in terms of exchange rate adjustments, but also has serious drawbacks on the social front.
- A major aspect of globalization is the tendency to overvaluation of Western currencies (which undermines real sector activity) that contrasts with the tendency to undervaluation of non-Western currencies (which explains the success of some non-Western economies, mainly China).
- The losers of globalization of the West are misled into thinking that poor migrants are to blame for their economic misfortunes, whereas these migrants are victims of the same phenomenon.

The 2008-09 crisis is no doubt one of the biggest economic events since the Great Depression. It has brought about a series of changes that are not only economic, but that also have repercussions at a social and political levels. The crisis can also be seen as a manifestation of the contradictions and excesses of the international monetary system.

One of the key features of the current system is that barriers to trade and capital have been weakened, and that communication travels at an incredible speed thanks in large part to the digital revolution. A major characteristic of the current system is the increasing importance of economic globalization, which was an important cause of contagion of the crisis worldwide.

Globalization accelerated at a particularly rapid pace during the decade of the nineties, but it has been growing more or less constantly since at least the end of WWII. Clearly, a lot of progress has been accomplished in terms of raising standards of living, but there have also been some dire consequences. Discussants of the effects of globalization are often well aware of both its advantages and its disadvantages. Therefore, the ultimate questions are whether the positive effects of globalization on the economy exceed its negative effects (or the other way around) and if or how its negative effects can be minimized.

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Policy making and globalization

Broadly speaking, for the past seventy years economic policy has consistently been carried out aiming at more globalization. Trade barriers (tariffs and quotas, mainly) and capital immobility (taxes on international financial transactions and currency boards for instance) have been relaxed, so that goods and capital now flow much more freely across borders than in the past.

Political regimes are often perceived as being important determinants of the direction of economic policy. For instance, right-wing presidential candidates often run on campaigns aimed at cutting taxes, slashing government spending, favoring price stability (which in turn makes saving more attractive), promoting entrepreneurship, weakening the Welfare State, and other similar measures that point in the direction of enhancing liberalism and globalization.

In contrast, left-wing presidential candidates often run on campaigns aimed at progressive taxation, raising public expenditure, favoring employment (even if this ultimately undermines price stability), promoting a strong Welfare State and other similar measures that point in the direction of reducing economic and social inequalities.

The success or failure of political leaders in implementing policy is often nuanced. Caricatures of both right-wing and left-wing candidates and political leaders often reduce economic policy measures proposed by these personalities to a reductive idea. Moreover, the effectiveness of economic policy may sometimes be undermined by external factors that reduce the potential of the policy.

A major external factor that undermines the power of economic policy is globalization, which quite often obliges governments to adapt to an existing situation (for instance, price stability or reduction of public deficits imposed by supranational organizations and/or by exchange rate adjustments) rather than leaving room for maneuver in order to focus on national policy objectives.

Now, strictly concentrating on Western countries, given that right-wing ideals (for instance, liberalization and globalization) have predominated over left-wing ideals, the political center has shifted to the right as compared to, say, the sixties or seventies. As a consequence, political parties that are nowadays considered to lie on the far left promote ideals that in other periods would have simply been considered on the non-extreme left.

At least previous to Brexit, economic policy proposals that went in the direction of more globalization were relatively easy to be accepted and implemented. In contrast, policy proposals that went in the opposite direction were more difficult to accept and be implemented. Even more, the latter were unlikely to be successful. Bottom-line, before these changing times, it was easier to go with the flow and more difficult to go against it. Ideas changed.

Political leaders' statements may have an important effect in signaling the direction of economic policy, and these signals can have an important effect on markets. However, perhaps even more important than statements, actions can have important effects on the economy. These actions have an origin and an explanation, and seldom happen overnight. Let us see some examples and how these may be related to political debates and elections.

Brexit, US elections and French elections

The debate surrounding Brexit and elections in both the US and France share a common pattern. All three are commonly perceived as the opposition of two extremes. On one extreme, those who favor globalization, and in the other those who favor protectionism or domestic policy objectives above international cooperation.

The discussions about the Brexit referendum showed the diversity of opinion on both sides, with Brexit supporters often depicted as racists globaphobes and those who opposed it as being more sensitive to the advantages of globalization. At a deeper economic level, this can be seen as a debate between losers and winners of globalization, where those on the losing side are sometimes less well-educated (though they are increasingly more numerous) than those on the winning side.

A major consequence of Brexit (clearly not the only one) was the strong depreciation of sterling, which was in part provoked by the loss of confidence in this currency after the results of the referendum were released. As far as I am aware, not many Brexit supporters suspected this would happen, but it may have turned out to be a good thing for them.

With many of these supporters arguing for many things other than the depreciation of sterling before the referendum took place, the depreciation may have brought about what they were looking for: a competitiveness boost. Brexit scared some financial investors out of the country and this provoked the sterling depreciation, which in turn results in cheaper products denominated in that currency, a rise in the general price level that often comes with a reduction in unemployment, and a message to the European Union that the rules it imposes on member countries (such as austerity) are not well adapted to deal with today's problems (i.e. the post-GFC recession).

The elections in the U.S. were somehow similar in that respect. Democrats ran on a campaign supporting measures to further enhance global links with Europe (TAFTA) and the Pacific region (TPP), whereas Republicans ran on a protectionist/xenophobic campaign. Ever since Trump's administration is in charge it has made attempts to show that public expenditure will increase and that protectionist policies against China and Mexico will be pursued. These measures, if they actually take place, will have the same desired effect as that of Brexit: a competitiveness boost (via a dollar depreciation and higher inflation).

The second round of French elections, which will take place in less than a week, also opposes a candidate that supports globalization (Emmanuel Macron) and another one who openly favors France's exit from the euro area (Marine Le Pen). Even though the former has recently **criticized the European Union** (which goes against his own pro-globalization rhetoric, but may have the ultimate effect of ensuring undecided voters to favor him), one of the main themes that oppose these two candidates is their position concerning the winners and losers of globalization.

If Le Pen is elected, chances are that the French currency (old or new) will depreciate, having the same effects as Brexit and those intended by the Trump administration: a competitiveness boost. If Macron is elected and if he is successful in negotiating some reforms that favor the real side of the economy, a competitiveness boost may or may not take place, depending on how far these negotiations go and on which currencies will follow the opposite pattern (naturally,

the same holds for sterling and the dollar).

Unfortunately, some of the losers of globalization (supporters of Brexit, Trump or Le Pen) confuse the target of their anger, which should be the current international monetary system rather than poor migrants (whom they blame for 'taking their jobs') that are themselves victims of the same phenomenon. This system has long promoted price stability, strong currencies and growing financial markets in the West. Despite the well-known virtues of these policy objectives, low inflation, overvalued currencies and exuberant financial markets have been coupled with high unemployment, stagnation and a weak productive sector.

In contrast, because Western countries have favored financial markets by appreciating their currencies and keeping inflation low over the course of the last forty years, other currencies have been allowed to depreciate, which in turn has had positive effects on employment and economic growth in other parts of the world (most notably China).

Where do we go from here? It seems that the excesses of financialization (via currency appreciation and low inflation) in the West has reached its limits. The solution to these excesses that provoked the disappointing economic outcomes we have witnessed at the lower deciles of the income distribution may be finally taking place now. Clear manifestations of the forces that push policy in the opposite direction of the current trend are depreciations of Western currencies (sterling, dollar and possibly the euro), perhaps at the expense of other currencies such as the yuan.

The depreciation of sterling (against the euro and the dollar) was a consequence of Brexit. The election of Trump signaled the desire of the most important economy in the world not to pursue globalization further. The French election may also be important in defining the fate of another major currency (the euro). And all these political events signal the limits of globalization. The danger here is that the social and political agenda of globalization opponents may create new (or intensify existing) diplomatic tensions that can have a lasting impact. Let us hope this does not happen.