Our national leaders have failed us. It's time to hand over power to global institutions

Image: REUTERS/Ronen Zvulun

Written by
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Much of the criticism leveled against globalization today is related to the idea that it enriches the few, while leaving many people behind.

Such a sweeping indictment, proffered by those advocating the wholesale abandonment of globalization, puts the very existence of an international agenda at risk.

Mounting geopolitical risk (manifest in the rise of populist politicians and Brexit) and ongoing economic headwinds (for example, stagnating global growth rates and persistent unemployment) means we are at a make or break point for globalization.

Yet according to economic theory, a pure form of globalization could succeed in delivering a more shared prosperity. In essence, it is not the idea of globalization itself that is problematic; it is that its implementation has not gone far enough.

Two forces weakening globalization

The salient question in this debate is whether a truly globalized system (of free movement of trade, capital and labour) can actually be implemented in practice.

On this point, the answer is that establishing a pure and more effective form of globalization will be difficult, unless policy-makers are able to overcome two tendencies that have weakened globalization: myopia and a zero-sum mentality.

In terms of myopia, policy-makers exhibit a blind spot for the true costs and consequences, borne tomorrow, of the policy decisions that they make today. Beholden to a national electorate and a desire to win and stay in office, policy-makers show tendencies towards a zero-sum mentality – the idea that in key policy decisions and practical implementation, nations are defined as either winners or losers.

The devastating impact of anti-globalization

Not only do both these characteristics cloud policy-making, but they also blunt the effectiveness of the globalization agenda, of the free movement of trade (in goods and services), cross border capital and labour.

Consider, for example, trade initiatives that are undermining globalization today: multi-billion dollar protectionist programmes – such as the EU's Common Agricultural Policy (roughly €60 billion each year) and farm subsidies in the United States (around $20 billion each year) – prop up domestic producers at the expense of emerging economies.

These unfair trade practices are not only antithetical to the ideals of globalization, they also have a devastating impact on the income and living standards of farmers in South America, Africa and Asia, who are unable to compete with subsidized rivals in the West.

The result is a dramatic drop in the amount of proceeds from trade available for much-needed investment in infrastructure, education and other public goods. And this has resulted in slower growth across the developing world, home to more than 80% of the world's population.

Protectionism on the rise

More broadly, protectionism is on the rise.

Led by the US, the G20 imposed 644 discriminatory trade measures on other countries in 2015, according to Global Trade Alert.

In the wake of intensified capital controls on banks, cross-border capital flows have been in decline.

International lending, measured by cross-border banking claims at the Bank for International Settlements, is down nearly $2.6 trillion – almost 10% – since 2014.

Furthermore, according to the Institute of International Finance, some $548 billion fled emerging markets in 2015, the largest outflow since 1988.

Unintended consequences

These trade policies are myopic in that policy-makers appear oblivious to the fact that the trade policies they implement today have enormous costs and consequences to their own economies in the future.

Put another way, the trade policies instituted today (in the West) create economic and political instability elsewhere, and this uncertainty is a crucible for the next wave of migrants (economic or political) to the developed West.

Already, today, global migration is at its highest in recorded history, with approximately 60 million people displaced by war or persecution, and over 750,000 migrants to Europe in 2015.

What the global migration crisis tells us is that in a true globalized world, policy-makers must fully appreciate the first order effects that trade policies have on the economic and political upheaval across the rest of the world.

But equally importantly, global policy-makers must recognize the second-order effects and externalities that reverberate back to their own economies in the form of disorderly and growing mass migration.

Ultimately, what happens here has material – and often negative – ramifications elsewhere. In the same vein, what happens there will continue and increasingly impact what happens here.

Refugees and migrants walk towards the Hungarian border
Image: REUTERS/Marko Djurica

Making globalization work

To reach a form of globalization that can succeed requires a level of change that will be hard to put in place. In today's form of globalization, no one is responsible for the "global" economic interest. Instead it is led by "world" leaders who are incentivized by and court national electorates.

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To overcome the problems of self-interest, and to give real effective globalization a chance, national governments need to cede real power and authority to global institutions. Of course international agencies mandated to govern the key tenets of globalization do exist – for example, the World Trade Organization over trade, and the International Monetary Fund with oversight of international capital flows.

But even these institutions are answerable and superseded by policy agendas of national governments, and thus struggle to implement a truly global agenda that behooves all. These authorities must be able to regulate the flow of capital, labour and goods and services.

As long as nation states retain these powers, globalization as a cause will remain imperfect – and ultimately will fail.

Thus, globalization has to be all or nothing.

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