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Middle Class Threatens Globalization

Distrustful voters are backing populists and reminding everyone how democracy works

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A populist sentiment sweeping the world is taking aim at the global economic order set by the United States in the decades following World War II.

Rising inequality, political polarization, and a growing belief that governments serve the monied elite are destroying the trust and cohesion that healthy societies are built on.

Far right parties have found a foothold in Europe, while far left parties continue to prosper in Latin America. They differ in views but take aim at the elite and their globalization agenda.

In the United States, angry and cynical voters are increasingly looking to elect a protectionist government that would raise tariffs and abandon trade deals, unwinding decades of trade liberalization.

We could see a backward movement in the global economy, and the global economy is already on shaky footing.

— **Laura Macdonald, director**, Institute of Political Economy, Carleton University

It's a movement born of those left behind and ignored in the current order—the old middle class, the working poor, the underemployed, and the unemployed—who have not seen the gains others have enjoyed under economic integration. The people supporting it have brought Donald Trump to the head of the Republican Party and lit a Bernie Sanders fire in the Democratic Party.

And while Brexit sent stock markets tumbling, a U.S. pullout from NAFTA—something Trump has suggested is possible—could be much more significant, according to Laura Macdonald, director of the Institute of Political Economy at Carleton University in Ottawa, Canada.

“I think that could create major economic and social dislocation,” she said.

“We could see a backward movement in the global economy, and the global economy is already on shaky footing.”

Inequality and Political Polarization

Rising inequality and political polarization have come at a time when many believe governments serve the rich.

According to the populists, trade deals and globalization help big companies make money by exporting jobs and avoiding taxes. Businesses then contribute to political candidates that support those interests.

This narrative fuels populist movements around the world, unsettling economists who see the growing backlash as a threat to economic stability.

“That is absolutely the problem going forward and I don’t think anybody has a magic solution,” said Edward Alden, a U.S. economic competitiveness specialist at the Council on Foreign Relations.³⁰

Alden believes that if trade deals and economic integration are to develop further, companies must be more committed to local communities, and citizens will need to start trusting their government again.

“If you can’t tackle these problems, I think the situation is just going to get worse and worse.”

Populist movements proclaim that the good people, the average common man and woman, are being mistreated by a small clique of elites who can and should be overthrown.

This sentiment is the seed of revolution, a precursor to upheaval, and the fertile soil in which Trump has planted his claim on the presidency.

It is the same field in which Bernie Sanders tried to sow an upset to Hillary Clinton’s coronation, and where Brexiters reaped sovereignty from the European Union.

No Money in the Middle

Globalization is a direct output of money in politics, according to the Trumps and Sanderses of the world.

International trade deals like NAFTA and the Trans-Pacific Partnership (TPP), or international trade regimes like the World Trade Organization (WTO), International Monetary Fund (IMF), and the EU, are thus tools of the globalists.

It’s become a toxic political environment, both on the left and on the right, for any type of trade agreement.

— **Darrell West, vice president**, The Brookings Institution

People may have laughed Trump off at first, but the backlash against globalization must be taken seriously, said Darrell West, vice president and director of governance studies at The Brookings Institution.

The elite must address the loss of trust that populists are using to shut down the free trade agenda, he said.

“If people don’t have confidence in government, it’s going to be hard for voters to trust political leaders to negotiate a better deal,” said West.

“It’s become a toxic political environment, both on the left and on the right, for any type of trade agreement.”

That toxicity spilled onto the floor on the first night of the Democratic National Convention, as Sanders’s supporters and others waved signs reading “NO TPP” and chanted the same during congressman Elijah Cummings’s speech.

Populists are, at one level, responding to a trend revealed by former World Bank economist Branko Milanovic, now a visiting presidential professor at City University of New York Graduate Center and senior scholar at the Luxembourg Income Study Center.

Milanovic documented a trend from the mid-1980s to today that showed how the rich got richer, as did the poor in less developed countries. The middle class in the United States, however, saw very little gain. While middle-class incomes have more than doubled in countries like China and Indonesia, living standards have stagnated for the middle class of America.

“Benefits for that group have been much smaller and I think that is where a lot of the grievances are coming from,” said Alden.

These are the people who paid the taxes, built the companies, and elected the governments that propelled liberalized trade. These are the people former president Bill Clinton pledged prosperity to when stumping for NAFTA and normalized trade with China in the 1990s.

Unfortunately, the specific concerns of the middle class are often assumed to be met by proxy through helping a country’s business community. Macdonald said governments need to change that.

The American upper middle class is separating, slowly but surely, from the rest of society.

— **Richard V. Reeves**, senior fellow, The Brookings Institution

“They’ve been focused on opening markets, responding to demands by big business, and haven’t come up with measures that might address some of the implications that come up when markets are liberalized.”

Those implications can range from restrictions on regulations to greater unemployment.

Trust and Education

It is not just that the rich got richer; within the middle class, some saw gains and some saw losses, further dividing people along economic lines.

Education has become the deciding factor in a new class order that sees politics, culture, and wealth increasingly polarized.

“The American upper middle class is separating, slowly but surely, from the rest of society. This separation is most obvious in terms of income—where the top fifth have been prospering while the majority lags behind,” wrote Richard V. Reeves for Brookings last year.

For those who had the skills and education to adjust to the current global economy, there was prosperity. This is the new middle class.

Meanwhile, those without an education, who once made a picket fence income with a high school education at the local plant, saw increased unemployment and underemployment.

When you say globalization is good for the economy, they say, ‘Yeah, but not for me.’

— **Trevor Thrall, senior fellow**, The Cato Institute

Trevor Thrall, a senior fellow for the Cato Institute’s Defense and Foreign Policy Department and associate professor at George Mason University’s School of Policy, Government, and International Affairs, said there is a divide between how these two groups look at globalization.

Upper middle class people are more likely to ascribe to the economic theories of free trade and accept it as beneficial to the U.S. economy.

For people who haven’t seen the gains of globalization, however, that is not true.

“So when you say globalization is good for the economy, they say, ‘Yeah, but not for me. And the people that say they are going to help me and are looking out for me, what the hell are they doing?’”

Adding insult to indignity, political and business leaders warned about this scenario and had a plan to avoid it.

Moments before signing NAFTA into law on Dec. 8, 1993, then-president Bill Clinton pledged, as he had many times before, to create a bridge for those about to face a whole continent of competition.

“Every worker must receive the education and training he or she needs to reap the rewards of international competition rather than to bear its burdens,” said Clinton.

Within a year, he said there would be comprehensive legislation to transform unemployment systems into retraining systems so workers could transition to new jobs as other jobs left.

But effective training programs never materialized and the IMF was calling on the United States as recently as June to “increase funding for training programs, vocational partnerships, and early childhood education.”

Government has a fundamental responsibility to help people adapt to this more competitive global economy.

— **Edward Alden, senior fellow**, Council on Foreign Relations

Wage polarization is a long-term threat to the U.S. economy, the IMF warned.

Training programs are the most needed, least controversial way the federal government could address the impacts of globalization and wage polarization, say many economists.

“Government has a fundamental responsibility to help the people they represent adapt to this changing, more competitive global economy, and the U.S. government has abjectly failed in that mission,” said Alden.

Alden explores that topic fully in an upcoming book, “Failure to Adjust: How Americans Got Left Behind in the Global Economy, and How to Get Ahead.”

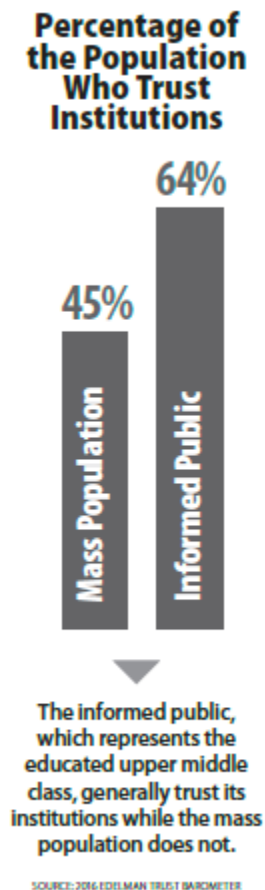
Meanwhile, the educated, urban, new middle class now preoccupies policymakers.

This group has enjoyed increased prestige and earning potential.

But the fallen middle class, the would-rather-be-working class, is rarely heard from or talked to—except during election campaigns.

‘Informed Public’ Versus ‘Mass Population’

Wage polarization and inequality are also reflected in what the Edelman communications and marketing firm describes as a trust gap between the “informed public” and the “mass population.”



The informed public is college educated, has a household income in the top 25 percent for their age in their country, and report significant media consumption and engagement in business news and public policy. In short, they are the new middle class, or more accurately, the upper middle class.

The mass population is everyone else.

Each year Edelman conducts a trust report to see how much people trust their governments, businesses, and nonprofits.

The firm found that the past year has seen a growing gap between informed citizens, who still largely trust their governments, and the mass population, which does not.

We are now observing the inequality of trust around the world.

— **Richard Edelman** , CEO, Edelman

The trust disparity is now at double digit levels in over half of the countries surveyed, Edelman found. The largest divide is in the United States with 20 points between the informed public and the mass population. The U.K. came next with a 17 point gap.

“We are now observing the inequality of trust around the world,” said Richard Edelman, president and CEO of Edelman in a statement.

The loss of trust is not an ephemeral concern, said Macdonald.

“It acts to erode people’s confidence in their institutions and their governments, and these kinds of exclusionary politics can feed into xenophobic responses.”

Giving Voice to Frustration

For the untrusting masses, there is a growing sense of frustration.

For them, Trump’s sometimes angry rhetoric reflects their own struggle to make sense of their world.

And though Trump is anything but disenfranchised, he knows his audience. At his acceptance speech at the Republican National Convention on July 21, Trump said his pending reforms “will be opposed by some of our nation’s most powerful special interests.”

“That is because these interests have rigged our political and economic system for their exclusive benefit,” Trump said.

“I have visited the laid-off factory workers, and the communities crushed by our horrible and unfair trade deals. These are the forgotten men and women of our country ... but they’re not going to be forgotten long.”

Trump said the elite would line up behind Clinton. Sanders said the same, taking aim at her cosy relationship with Wall Street and flip flop on the Trans-Pacific Partnership.

Robots and Shipping Containers

While populists have ample and accurate fodder on many fronts, they do tend to ignore how technology has fueled trade and reduced jobs.

The shipping container revolution, for example, has done more to increase trade and imports—substantially more—than tariff reductions, according to a paper published by Lund University in Sweden.

Robots and automation have also cut the number of workers needed in an incremental and almost invisible way across the entire economy.

However, when new imports shut down a local company, the change is dramatic and easily seen. That translates into a pattern, said Alden.

“People blame trade quickly, they don’t tend to blame technology.”

Trump’s pledge to start making things in America again would be tempered by the reality that robots will do much of the making.

Secrecy and Sovereignty

The backlash also targets the anti-democratic aspects of globalization.

Populists deride the fact that industry and business get a seat at the bargaining table for trade deals that are kept secret from the rest of society.

The now defunct Security and Prosperity Partnership, a dialogue that many saw as a successor to NAFTA aimed at greater economic and security integration, came under fire for exactly this reason, said Macdonald.

“The record of the North American leaders hasn’t been very good in meeting with civil society leaders or opening up the process to democratic participation in the past. So unless they confront those kinds of problems and undertake real measures that might benefit the common person, it is pretty hard to confront those kinds of protectionist sentiments.”

Secrecy was once believed to be the only way to get trade deals done. Otherwise, vested interests would derail negotiations when they learned protective tariffs were being reduced on competing products from other countries.

Now transparency looks to be all but required, said Alden.

“These agreements now are so complex and they impinge on so many areas that are fundamental to government,” he said.

Those include patent rules, intellectual property, settlement of disputes, and other areas of government regulation.

“These are fundamental questions of government, and people have the right to know what is being proposed and negotiated on their behalf.”

That is especially true, say critics, when trade deals include investor state dispute settlement (ISDS) mechanisms that let corporations sue governments and potentially limit how they regulate or legislate.

‘Profound Social Instability’

If the current anti-globalization backlash is to be resolved, it will need to be done smartly, in a way that doesn’t entrench distrust or implode the global economy.

That is especially true at a time such as ours of “profound social instability.”

The World Economic Forum says profound social instability is at the nexus of a host of rising threats the world is facing and is closely connected to unemployment or underemployment.

Because the robotic revolution is just getting started, and income inequality is increasing, there is a general sense that all is not well.

We are in an era of social instability. People are nervous about the future.

— **Darrell West, vice president**, The Brookings Institution

“We are in an era of social instability. People are nervous about the future and there is a chaotic world environment. We are facing very substantial challenges as we move into the future,” said West.

With up to half of today’s jobs up for automation within the next 20 years, according to a study by Oxford University, unemployment looks set to rise.

“We simply are not going to need all the workers, due to productivity improvements through that technology,” said West.

“There are lots of ways the technology revolution is going to affect the workforce.”

When government distrust is combined with rising unemployment, it looks difficult for governments to advocate for increased trade liberalization, or even the status quo.

Those looking to preserve globalized trade, including a raft of think tanks exploring the issue, have many suggestions to address some of the current issues.

At the top of the list for many are better training and education, transparent negotiations, and better government accounting for citizen interests and concerns in trade deals.

Other solutions, however, are in the direction of socialism, making them politically contentious. Some also seem to appease rather than empower citizens.

These take the form of income redistribution, either through progressive taxation or increased social programs, like guaranteeing a basic income.

There also needs to be a better effort to go after trade cheats, said Alden, pointing to China specifically for its previous currency manipulation and its flouting of WTO rules.

Rebuilding Trust

To really preserve the current liberalized trade system, however, governments will need to regain the trust of their citizens. This is the most crucial issue facing governments and businesses that rely on the current trade regimes.

“Leaders should be addressing the issue because it is so fundamental in terms of what happens in the future. If people don’t trust public institutions, it’s going to be hard for any president to rally support for particular programs,” said West.

Governments could largely ignore the loss of trust in previous decades because it manifested in manageable ways—most specifically, in a declining voter turnout.

But in an era of anti-globalization populists, trust must be renewed.

Ironically, it could be the rise of Trump, Sanders, and Brexit that pave the way for that to happen.

The rise of populists serves as a reminder to the elite that the needs of the common person must be accounted for and that democracy is still based on votes rather than dollars.

Alden said that despite disagreeing with Trump's policies, it was encouraging to see a campaign that didn't hinge on major financing.

“Money had much less influence on this campaign so far than any other campaign we've seen. The monied interests do not like Donald Trump for the most part and he succeeded anyway. I think it does show that there are other channels by which people can influence the political process.”

West warns that the loss of trust happened slowly—over 50 years—and will take time to fix. The solution, however, is relatively simple: government must perform better, especially when it comes to the economy and international relations.

“It is going to be a difficult task but there are things we can do.”

Looking Behind and Ahead

There is another thing worth considering, said Thrall: that some of the current backlash is based on ignoring that the world is a competitive place. For those that lived through the post-war boom, it is hard to accept that other countries have begun to challenge U.S. innovation and industrial capacity.

“It's this nostalgia for a time when people felt much more secure in America being the global powerhouse economically and otherwise. And of course younger Americans never knew a time when things were different.”

Different, however, is the new normal. We live in a time of unprecedented change. The world economic order built by American elites helped give birth to the institutions that would encourage a new regime of free trade worldwide.

It's been an incredible success for billions of people, including the very poorest. So long as America was the dominant world economy, this flourishing of global trade went hand in hand with a flourishing American middle class.

But automation, containerized imports, and a competitive global market have changed that. And if business and political leaders don't focus on meeting the needs of the average voter, populists may take a wounded electorate—and perhaps the world—in unpredictable directions.

As much as economists and others may shudder at the thought, there is also another possibility.

In a time of great change, sticking to the status quo could create its own dangers. After all, if robots are about to terminate millions of jobs, maybe it is more important to face that reality than to obsess over tariffs. The elites and the populists do in fact have a common ground, and creating the conditions for a U.S. economy with a healthy middle class will best ensure the success of the global economy—and their personal wealth.

GE Seeks to Localize

Companies that operate on a global scale are taking note of the backlash against globalization, and some, like General Electric, are preparing to adapt.

In May, Jeff Immelt, the CEO of GE, gave a keynote speech at New York University's Stern Business School, sharing the core of GE's plan.

“In the face of a protectionist global environment, flexible thinking is required, and companies must navigate the world on their own. We must level the playing field, without government engagement,” he said.

“We will produce for the U.S. in the U.S, but our exports may decline. At the same time, we will localize production in big, end-use markets like Saudi Arabia.”

In other words, GE will complete a process of globalization that would see it avoid trade barriers by localizing operations in its major export destinations.

Immelt wants to empower local teams in those countries to make decisions, saying that “complex and centralized bureaucracies are obsolete.”

It's a vision of business that will see GE rely less on advocacy and protection from the U.S. government.

Edward Alden, a U.S. economic competitiveness specialist at the Council on Foreign Relations, described it as “the most important foreign policy speech of the year so far.”

Not speaking directly about GE, Alden said many companies have been quick to cut ties with their origin nations.

“A lot of the companies have bought this notion that they are global companies with responsibility only to their shareholders, and that the United States and the communities they are part of are incidental,” he said.

“That is a profound transformation over the last half century.”

GE has itself been criticized for such behavior itself, including tax avoidance measures.

Repeated attempts to ask GE for clarification on Immelt's comments were politely declined.