

Trump, Brexit and the Future of Transatlantic policy

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Western societies have pursued a certain idea of a globalization in recent decades: the disappearance of borders, the end of nation-states, and the creation of supranational structures that do not recognize the traditional political, geographic and social divisions. The view is that of an inevitable march towards the recognition of certain shared rights and values.

The events of 2016 have deeply shaken the certainty that the world is going in this direction.

Protest movements have arisen throughout Europe in recent years, including xenophobic groups on the right, but also anti-establishment movements on the left, such as the 5-star movement in Italy. The rejection of EU policies has led to the success of political formations that until a few years ago either didn't exist, or were considered outside of the system, and treated as such by the political class and the mainstream media.

The two "events" with the greatest impact this year have been the Brexit vote, and the victory of Donald Trump in the U.S. presidential primaries. He may not win on November 8, but in any event the success of his campaign represents a fundamental shift in U.S. politics.

The vision of a globalized world is under attack. Certain aspects won't change, and international interaction will not stop. But certain effects of globalization, in particular as regards economic policy, are causing a sharp blowback in Western nations.

George Friedman, the founder of Stratfor and Geopolitical Futures, addressed this shift in a recent article. He wrote:

A new ideology has emerged. It is not yet in power, but it is growing. It argues that the nation-state controlling and limiting its dependence is superior to interdependence. It also argues that the nation-state provides benefits that globalism cannot: a sense of community, the preservation of culture, a sense of self. This argument says that humans without a nation are humans without a community. They are alone, lonely, and helpless. And at the root is the argument that there are more important things than money.

There is a growing rejection of interdependence, and that is not only a trade issue, but a question of the preservation of the nation.

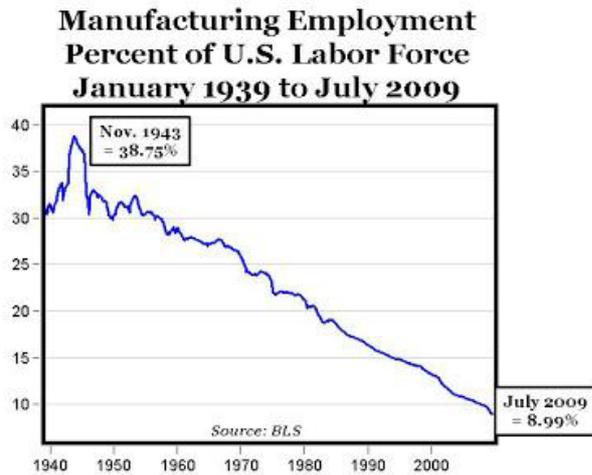
We now need to go beyond the mere recognition of this "new ideology", and understand where it is coming from. A "new nationalism" is emerging, consisting of elements such as economic protectionism, a harsher line towards immigrants, and an apparently more selfish attitude in foreign policy.

In the United States Donald Trump represents this new view, and it would be a serious mistake to think that Trump is merely a crazed demagogue who draws his support from racists and xenophobes; just as it would be a mistake to think that the Brexit vote was based only on such sentiments. This is only a partial truth, based on some elements of reality, and very convenient for those who wish to avoid reflecting on their own errors.

The reality is that a revolt is underway against the policy choices of the past 40 years. While "globalization" is a more recent concept, that took hold in the 1990s, the policy of post-industrial, financial transformation of Western economies has been going on for much longer.

This transformation has had serious effects on the middle class, as we can see in the following graphs.

The first shows the drop in manufacturing employment in the U.S. labor force since World War II. Today the percentage of workers employed in actual production is well below 10%.



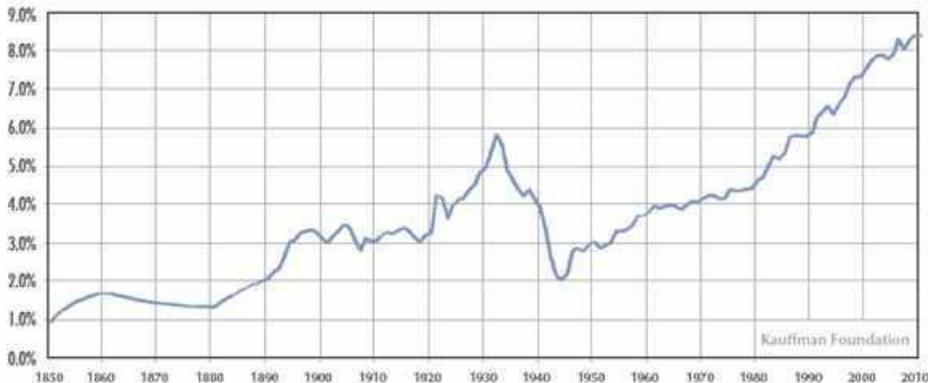
What are the reasons? There are objective factors such as technological progress, but there has also been a conscious move towards an economy based on services, and less on physical production. While this means new, high value-added jobs for some, for a majority of the population it means lower wages and less job security.

Where has production gone? To countries with low labor costs, of course. And this has left many out of the workforce altogether. In fact, while the official unemployment rate in the U.S. is quite low, the reality is that many people are no longer counted, as they aren't considered part of the labor force anymore, being long-term unemployed who have given up looking for stable work.



Despite this drop in physical production there has certainly been economic growth in recent decades, at least in nominal terms. This growth has been driven primarily by finance, though.

Figure 1: Financial Sector as Percentage of U.S. GDP: 1850–2009



It is well-known that speculative activities fed various financial bubbles throughout the 1990s and the 2000s, until the (predictable) explosion of 2008.

The populations in both Europe and the United States felt the effects of this crash, through unemployment and austerity imposed by governments, but at the same time saw the public sector bail out banks and financial companies to the tune of trillions of dollars.

Despite this shock to the system, the underlying mechanisms of the economy driven by finance have not been changed. Stronger brakes have been added to the system, but public budgets continue to be constrained by worries over deficits and debt, while central banks provide unlimited liquidity to the financial sector as encouragement to kick-start economic activity.

The revolt among the population in the United States is due in large part to this process. Voters see that the political and financial elite has failed to make profound changes, while maintaining its own privileges. There are complex factors involved, of course, regarding conflicts with powerful interest groups and also forces of economic change around the world, but until now the establishment believed it could essentially ignore the effects of the crisis on a significant part of the population. The reaction among the electorate is showing that such an attitude risks provoking a dangerous rupture between the population and the political institutions.

Donald Trump is obviously a very imperfect vehicle for this protest, but it is important to remember that Trump is not the only outsider who had success in this year's election. Despite certain structural and political disadvantages Bernie Sanders mounted a serious challenge to Hillary Clinton. And Trump himself wasn't the only Republican to position himself as an alternative to the party establishment: Ted Cruz also ran a similar campaign, on certain key economic and foreign policy issues.

These candidates have unmasked the truth that should have been evident all along: the majority of the electorate is not in favor of losing industrial jobs, or of continuous foreign wars that seem to cause more problems than they solve.

For a time the Republican Party survived on ideological campaigns: lower taxes, less government, and opposition to gay marriage and other cultural wedge issues. Now the game is up, as it is clear that the party base is more than willing to join a political campaign against Wall Street and neoconservative foreign policy.

In terms of economics, the principal target chosen by the outsider candidates has been the so-called 'free trade' agreements. The NAFTA accord has been attacked as contributing heavily to the loss of U.S. manufacturing, and the proposed Trans-Pacific Partnership (TPP) has become the new target among the movements and candidates who denounce the greed of companies that lay off workers even when they are profitable, with the goal of exploiting cheap workers in poor countries with weaker labor and environmental regulations.

The lone remaining establishment candidate in the race, Hillary Clinton, is hard pressed to defend herself on these points, as she is justifiably seen as part of the political establishment that has implemented these policies over the past 25 years.

Donald Trump's policy prescriptions are not coherent, especially when he listens to his more traditional Republican advisors, but they reflect ideas which the political class must deal with: he is expressing opposition to the model of globalization based on low costs.

We can discuss whether the accusations against free trade agreements are more or less accurate, but what we cannot do is ignore them, and go forward with the same model as in the past. This would only exacerbate tensions, potentially leading to even more chaotic discontent in the future.

I believe we are seeing the beginnings of a fundamental change. There is pressure for greater investment in the real economy, for a return of decision-making power to national governments, away from financial markets and supranational bureaucracies. The question is whether the transatlantic establishment is ready to accept the need for this shift, or if it will cling to the policies which have guaranteed its own hegemony over the past few decades.

Will governments continue to defer to large financial interests, accepting the assumption that economic growth is driven by finance, and that state intervention in the economy is always negative?

Will Brexit and the U.S. election campaign be written off as merely manifestations of racism and xenophobia, without recognizing the underlying difficulties of the middle class that have led to this discontent?

The shift that I have discussed is not limited to only economic issues, but also strictly intertwined with the foreign policy choices made in recent years. After over a decade of "regime change" which led to the disasters in Iraq, Libya and Syria - among others - an attempt was made by the Barack Obama administration to move towards diplomacy. The U.S. President has shown a willingness to work with countries considered enemies, such as Russia, searching for common ground despite acknowledging different strategic interests.

However, in recent weeks a worrying reversion towards an aggressive anti-Russia policy has emerged. Obama has become a lame duck, and the U.S. institutions are already expressing a more adversarial approach towards Russia, raising the specter of a dangerous deterioration in relations in the coming period.

The strategic and economic aspects are related. The West sees the TPP and TTIP free trade agreements as a tool to check the influence of competitors such as China and Russia. It is dangerous though, to attempt to make up for our own mistake of pursuing a post-industrial, finance-driven economy by moving to block the increase in influence of others who have followed a different path. I believe that we should search for areas of cooperation, rather than defend the weak position we have brought upon ourselves. At the same time, we should strengthen our own economies rather than double down on the mistakes of the past. This may be the only way to ensure that our institutions and economies continue to effectively represent our Western values.