

INTRODUCTION

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ABSTRACT

This essays introduces views expressed at the “Workshop on Globalization in Historical Perspective – A Long-Term View” held on June 8, 2017 in the framework of Fondazione Luigi Einaudi’s “The ‘West’ in Globalization” research project.

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The following essays report views expressed at the “Workshop on Globalization in Historical Perspective – A Long-Term View” held on June 8, 2017 in the framework of Fondazione Luigi Einaudi’s “The ‘West’ in Globalization” research project.

It is commonplace to express concerns about globalization. Some consider it a source of economic and social problems, others see it as a welcome engine of progress but worry about its possible demise. Both can be correct in theory. Removal of market barriers makes it possible to increase the total size of the welfare pie, but is not beneficial for everybody, everywhere, and all times, because trade and competition reduce the income and welfare of those who would in autarky enjoy relative scarcity of the factors they own, or monopoly power. In principle, transfers can compensate losers. In practice, the information that would make this possible is not available, so international economic integration is rationally resented by those who expect or fear losses.

It is rarer and more constructive to recognize that whether globalization can or should take place is an essentially empirical question, to frame current hopes and worries in historical perspective, and examine past expe-

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riences to see how human societies may navigate the opportunities and pitfalls of interactions across their borders. It is not straightforward to do so, because history does look different to different people: Chinese, Persian, or Turkish eyes see the world from a historical vantage point that is very different from that of Western culture, and world visions can be and often have been manipulated to build national identities and support national interests.

Kevin O'Rourke's cultural background is Irish, hence unbiased by imperial or national grandeur, and was shaped during his distinguished career by living and working in various countries as both a historian, who knows well that geography and violence matter a lot in human society, and an economist, who wants to interpret rather than just describe the causes, effects, and mechanisms of trade and conquest. He and his work are highly respected and frequently cited by economists who know less than him about history and share his preoccupation with the distribution of welfare within and across countries. His "Varieties of Backlash" essay provides a constructive overview of the reasons why internationalization of economic activity can be resented, and of the ways in which government can in principle and have in practice deployed policies that preserve its political sustainability. Social welfare schemes can to some extent compensate actual and potential losers, and public budgets can buffer shocks that originate abroad. Depending on politico-economic and geopolitical conditions, however, these tools need not be deployed effectively, and the interaction of domestic and international policies explains globalization's ebbs and flows in history.

Rich countries did implement social and fiscal policy broadly in the post-war period, when trade grew strongly. The political climate is not as favourable to globalization now, and the next two essays highlight ways in which the current situation differs from previous historical experiences. Stefano Fenoaltea's "The backlash to globalization: some further thoughts" are those of an economic historian equipped with keen empirical and policy insights, and familiarity with both Europe and America. Opposition to globalization may be a reaction to the Americanization of culture he has witnessed in his long and highly productive career. Cultural dominance may of course be a plausible consequence of economic superiority, and this type of backlash mechanism would deserve to be explored in further research. It is natural to wonder whether negative views were expressed during and after the Renaissance about Italian trade and cultural imperialism by Elizabethan English thinkers, and perhaps in earlier times by Neanderthals about Homo Sapiens immigrants from Africa. It is also the case that when the rich were endowed with land rather than with financial and human wealth, trade in goods and commodities did not have the distri-

butional implications that now make it politically difficult; some backlash may be blamed on the failure of professional economists and politicians to predict and prepare for them.

Another relatively novel aspect of current experience is the role of financial markets. Ugo Panizza's "The Real Effects of Financial Liberalization: What do the data say?" essay brings to the issue the perspective of a very competent economist with extensive policy experience. Financial markets are segmented at the border of countries not only by cultural and technological barriers, but also by capital controls and other national policies. International trade in financial contracts should, like trade in goods, generate economic gains at the aggregate level: if the growth of international financial flows and balances is due to liberalization of cross-border exchanges, its variation across countries should be positively associated with favourable economic outcomes. The data, however, disagree. While financial liberalization and international imbalances are associated with a rich variety of other phenomena, such as cyclical booms and domestic policy reforms, an extensive empirical literature finds that financial flows are not directed towards countries that are or become more productive. Financial markets are obviously imperfect, hence a double-edged sword that countries may justifiably refrain from wielding. Further research could fruitfully aim to characterize the ways in which dysfunctional financial markets make liberalization damaging in specific circumstances.

Among the sources of globalization's currently weak political appeal it seems to me useful also to highlight international policy competition, which makes it difficult for national governments to enforce taxes and regulations that economic agents can easily escape across borders, and new modes of international economic interaction, which increasingly involves integrated production chains and trade of custom-made components rather than of commodities or finished goods. In both respects, the efficient scale of production and policy has become larger than that of the nations that proved capable of managing globalization after the demise of empires.

Even as the West benefits in the aggregate when it becomes easier for know-how and financial capital to be employed globally, within rich countries the lower middle classes that are politically decisive in a democracy resent the inability of governments to prevent the decline of their relative status. Supranational frameworks could suitably broaden the scope of the relevant policies. They are proving very difficult to develop, even in Europe, but academics and policymakers would be well advised to keep on devising and implementing ways to ensure the political sustainability of international economic integration.