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## Reasons for rejecting globalisation: beyond inequality and xenophobia

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### Theme

The authors analyse reasons accounting for the growing discontent with globalisation and the liberal establishment in advanced democracies.

### Summary

This paper presents five hypotheses to account for support for anti-establishment and anti-globalisation movements. In addition to the predominant perception that the economic decline of the middle classes and the growing xenophobia evident in the West account for Donald Trump's victory in the US, Brexit and the rise of the National Front in France, among others, the authors set out another three reasons: the difficulties that significant layers of the population are having in adapting to technological change, the crisis of the welfare state and the growing disenchantment with representative democracy.

### Analysis

A consensus has existed for decades among the main political forces of the US and Europe revolving around the idea that economic openness is positive. The flows of trade and investment and, to a lesser extent, workers have thus been gradually liberalised over time. Thanks to this liberal order, Western societies have become more prosperous, more open and more cosmopolitan. Although some lost out from this economic openness, the majority of voters were prepared to accept a greater level of globalisation. As consumers they could acquire products more cheaply from countries such as China, and they also understood that the welfare state would protect them appropriately if they temporarily fell into the category of the losers (in political economy this is known as the 'compensation hypothesis',<sup>1</sup> according to which more open countries tend to have larger state sectors and redistribute more). For their part, developing countries have also benefitted from economic globalisation, exporting products to the wealthy transatlantic market (which is more and more open) and sending remittances from the West to their countries of origin. The invention seemed to work.

In recent years however, and in particular since the global financial crisis and the Eurozone crisis, the advocates of these policies (social democrats, Christian democrats

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<sup>1</sup> See Dani Rodrik (1998), 'Why do more open economies have bigger governments?', *Journal of Political Economy*, nr 106, p. 997-1032.

and liberals) have become increasingly squeezed electorally by new extremist parties calling for, to a greater or lesser extent, the closing of borders, both to trade and to immigration. Most of these are parties of the far right (although there is also a far-left variety), and they call for regaining national sovereignty, the loss of which they attribute to global markets, to a dysfunctional EU and to migration policies that they consider excessively liberal. 'Take back control of the country' is a slogan shared by Trump in the US, the more nationalist supporters of Brexit in the UK and the French National Front. All of them aspire to achieving this by reducing international trade and expelling immigrants. Their protectionist, nationalist and xenophobic messages seek to give simple solutions to complex questions, and are attracting increasing numbers of voters disenchanted with the directions their societies are taking.

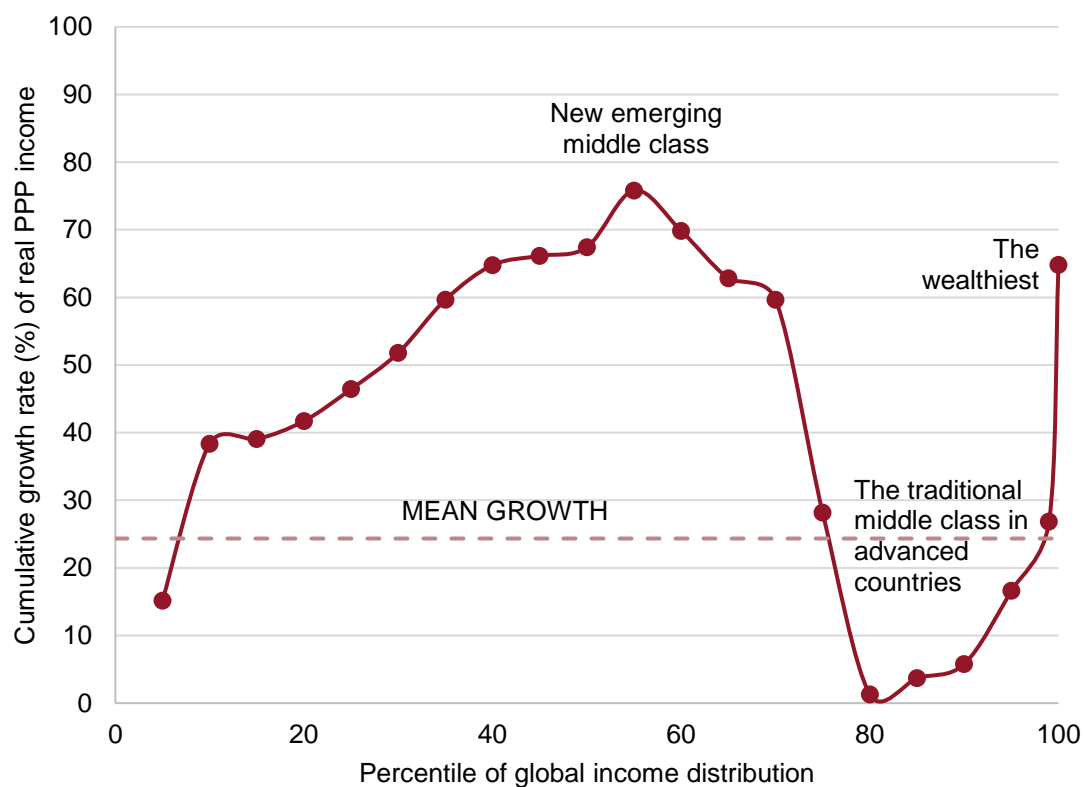
Over the course of what follows we put forward five hypotheses to account for the support for these new parties. To the idea that the economic decline of the middle classes and the growing xenophobia evident in the West account for Donald Trump's victory in the US, Brexit and the rise of the National Front in France, among others, we add another three reasons: the difficulties that significant layers of the population are having in adapting to technological change, the crisis of the welfare state and the growing disenchantment with representative democracy.

### Economic decline and xenophobia

In general, experts and news media concentrate on two (not necessarily contradictory) hypotheses to explain why the electorate is lending increasingly more support to the new anti-establishment parties. First, there are those who maintain that the populist revolt is fuelled by lower and middle-class voters who have seen their incomes stagnate and are convinced that their offspring will be even worse-off than they are. As Branko Milanovic<sup>2</sup> has shown (see Figure 1), these are the people who have lost out from globalisation. In the main they are poorly-qualified workers from Western countries who have been unable to adapt to the new world-wide economic and technological reality and who, on losing their jobs due to the competition from products made in low-wage countries and seeing how the welfare state is not helping them enough, choose to support those who promise to protect them by closing borders. This hypothesis would explain why the French National Front, for instance, is increasingly drawing on the support of socialist voters, from the working and even middle classes, disillusioned with Hollande's economic policies, and why many unemployed and poorly-paid workers in areas suffering industrial decline, traditional Labour voters, supported Brexit in the hopes that a UK outside the EU and with greater political room for manoeuvre might better protect them from external competition.

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<sup>2</sup> Branko Milanovic (2016), *Global Inequality. A New Approach for the Age of Globalization*, Harvard University Press.

**Figure 1. Winners and losers of globalisation: growth in real cumulative income, 1988-2008**

Source: Lakner and Milanovic (2015); *El País*.

The second, similarly plausible, hypothesis is that voters are not leaning to the right for economic but rather identity and cultural reasons. Thus, the latent racism and xenophobia that have always existed in the West (but since the end of the Second World War it has been politically incorrect to express) are emerging owing to the social and cultural impact of the increase in immigration in recent decades. Voters are thus turning to parties with strong leaders (whose pronouncements verge on the authoritarian, as with Orbán in Hungary) promising to protect the 'national identity' and halt the process of change and watering-down of values and cultural traditions that openness and multiculturalism have entailed. Fear of terrorist attacks perpetrated by extremist Islamic groups fuels this discourse because it enables hostility towards foreigners to be focused on Muslim immigrants (who are mixed in with the debate on refugees in Europe), placing security at the heart of the political debate, something that Europe has not experienced for many years. Thus, strong leaders with simple and clear ideas (featuring such messages as 'us against them') seduce a fearful electorate, fuelling the hope that the answer to their fears involves installing a protective father-figure at the head of the government, the paradigmatic example of which is Putin in Russia, a person both Trump and Le Pen profess to admire.

For the moment there is empirical evidence to corroborate both hypotheses. In a recent study, the management consultancy McKinsey showed that between 2005 and 2014 real income in advanced countries had stagnated or fallen for more than 65% of households,

comprising some 540 million people.<sup>3</sup> Moreover, various studies show that those regions of the US that import the most Chinese products tend to de-industrialise most rapidly, creating pockets of unemployment that, far from rapidly finding work in other industries, find themselves permanently excluded from the labour market. Furthermore, it is precisely these areas that tend to vote for the most radical politicians, with the most protectionist policy platforms.<sup>4</sup>

Meanwhile, other studies have shown that voters supporting parties of the extreme right in Europe and Trump in the US, far from being the losers of globalisation, are mainly white middle and upper classes who are becoming more and more openly xenophobic. Thus, according to a study of electoral behaviour in seven European democracies, the best predictor of voting for the far right is support for policies clamping down on immigration, not centre-right economic preferences or mistrust of politicians in general or of European institutions in particular. Another study showed that men are more disposed to supporting these parties than women, even though it is the latter who are worst affected by the increase in free trade, occupying as they do low-wage jobs to a greater extent.<sup>5</sup>

For many, it is important to discern which of the two hypotheses is correct to be able to design public policies that confront the rise of anti-establishment parties threatening to reverse decades of economic policies that have generated wealth and prosperity. But perhaps both hypotheses are correct, in which case it will be necessary to address both causes together. It is possible, however, that limiting the problem to economic decline, inequality and xenophobia is overly reductionist. The reality is more complex and there are other factors that might account for the rejection of globalisation and the liberal order. This is what we intend to explore below.

### The impact of new technology

Robotics and artificial intelligence are normally presented as major advances for our societies. They increase productivity and create huge opportunities. Robots have been introduced into many industries, from car-making to aviation and even shipyards. In the future they will drive and cook for us and make household repairs. The simple daily use of smart phones has solved a good many headaches. We can use them to chat instantaneously, carry out banking operations, watch a football match or film and find out how to get anywhere as fast as possible. The advent of Uber as a replacement for conventional taxis, in addition to other applications, is transforming our lives. But it is

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<sup>3</sup> McKinsey Global Institute (2016), *Poorer Than Their Parents. A New Perspective on Income Inequality*, June, <http://www.mckinsey.com/global-themes/employment-and-growth/poorer-than-their-parents-a-new-perspective-on-income-inequality>.

<sup>4</sup> David Dorn & Gordon H. Hanson (2013), 'The China syndrome: local labor market effects of import competition in the United States', *American Economic Review*, vol. 103, nr 6, p. 2121-2168; David Dorn & Gordon Hanson (2016), 'Importing political polarization? The electoral consequences of rising trade exposure', Working Paper nr 22637, NBER; and Yi Che, Yi Lu, Justin R. Pierce, Peter K. Schott & Zinghan Tao (2016), 'Does trade liberalization with China influence US elections?', Working Paper nr 22178, NBER.

<sup>5</sup> These and other examples are summarised by Zack Beauchamp in 'White riot', <http://www.vox.com/2016/9/19/12933072/far-right-white-riot-trump-brexit>.

precisely this progress, and the speed with which it is unfolding, that scares many people. In New York the drivers' union has announced that it is going to fight against the introduction of Uber's driverless cars. The hotel industry is alarmed by the growth of Airbnb.

Technology increases productivity, but it also reduces employment in the short term, particularly routine work not requiring much in the way of qualifications. This leads many members of the working classes, but also more and more members of the middle classes, to look askance and even reject modernity and the major technological changes underpinning the liberal order, just like the Luddite movement that called for the destruction of the machines during the Industrial Revolution. Robots are now not only replacing employees in assembly lines, they are also gradually replacing white collar workers such as secretaries, bank employees, accountants and even lawyers and financial advisers (see Figure 2).

**Figure 2. Professions threatened by automation (probability in %)**

<b>%</b>	<b>Marketing</b>	<b>%</b>	<b>Content creators</b>
1.4	Marketing managers	1.5	Multimedia artists and animators
1.5	Public relations and fundraising managers	2.1	Photographers
3.7	Meeting, convention and event planners	2.2	Producers and directors
3.9	Advertising and promotions managers	2.3	Artistic directors
13.0	Management analysts	3.8	Writers and authors
18.0	Public relations specialists	5.5	Editors
22.0	Statisticians	8.2	Graphic designers
23.0	Survey researchers	16.0	Desktop publishers
61.0	Market research analysts and marketing specialists	31.0	Film and video editors
66.0	Statistical assistants	84.0	Proofreaders
94.0	Budget analysts	89.0	Technical writers
<b>%</b>	<b>Sales</b>	<b>%</b>	<b>Information technology</b>
0.4	Sales engineers	0.65	Computer systems analysts
1.3	Sales managers	1.5	Computer and information scientists
7.5	First-line supervisors of non-retail sales workers	3.0	Network and computer systems administrators
25.0	Sales representatives, wholesale and manufacturing	3.0	Database administrators
28.0	First-line supervisors of retail sales workers	3.5	Operations research analysts
51.0	Demonstrators and product promoters	3.5	Computer and information systems managers
54.0	Advertising sales agents	4.2	Software developers, applications
85.0	Sales representatives, wholesale and manufacturing	13.0	Software developers, systems software
92.0	Insurance sales agents	22.0	All other computer occupations
92.0	Retail salespersons	48.0	Computer programmers
99.0	Telemarketers	65.0	Computer support specialists

Source: Carl Benedict Frey & Michael A. Osborne (2013), "The Future of Employment", Working Paper, Oxford Martin School, University of Oxford.

Many millennials (those born between 1980 and 2000), for example, rarely visit a branch of their bank and they manage their savings using a robot-advisor logarithm (in other words, via a computer screen). All this is creating a major technological gulf between the highest-qualified professionals, who see their incomes rise and are consequently comfortable in an ever-more competitive, cosmopolitan and globalised world, and those

that are not. This division explains in part why the average rural voter supported Trump and Brexit whereas the big cities were inclined towards Hillary Clinton and the UK's membership of the EU.<sup>6</sup>

In this case, the fear being expressed in the protest vote does not so much reflect jobs that have been lost as the fear of losing future jobs or joining the ranks of low-paid workers. Millions of poorly-qualified and rural voters feel that the state has failed to do enough to help them clamber aboard the train of modernity. The educational gulf is becoming ever wider. Those who can afford to invest in an education that will prepare them for the 21<sup>st</sup> century have everything to gain. Those who cannot afford this will experience more and more difficulties in finding work and will be stranded on the sidelines, even if they have a university degree. This creates enormous frustration and may account for the anti-establishment vote.

### The welfare state fosters protectionism

Another possible cause of the discontent among a large part of the electorate is the one Robert Gilpin pointed out in the 1980s: that the gradual expansion of the welfare state can create protectionist interest groups.<sup>7</sup> Consider pensioners. Otto von Bismarck introduced the first pensions system in 1881. In those days, people retired at the age of 65 because life expectancy at the time was exactly 65 years. These days, however, while retirement has remained at 65 (or has risen to 67), life expectancy in most developed countries has risen to around 80 years. In an increasingly competitive and globalised world, this level of social spending is hard to maintain. It requires raising the retirement age, increasing the contribution years or cutting the value of pensions, but the resistance is enormous. Most people in many European countries view pensions as an inalienable acquired right. Some of the solutions put forward to protect them are increasing tariffs on products originating from Asia, introducing capital controls to preserve wealth inside the country and raising taxes to offset the social cost.

Another group that may be becoming more and more protectionist is public sector workers. Hitherto, workers in the state sector have been much less exposed to foreign competition than their counterparts in the private sector, which enabled their salaries to remain relatively high. However, once the globalisation of economic activity passes from the secondary sector of industrial manufacturing to the service sector, including public services, competition is also going to be noticed in the public sector. And because public-sector workers tend to have better-organised trade unions, resistance to liberalisation will be accordingly greater. The recent opposition to the free-trade agreement between the US and the EU (TTIP) and TISA (a multilateral agreement to liberalise trade in services negotiated under the auspices of the World Trade Organisation), which both seek to liberalise services, may be explained from this perspective. By the same token, the opening up of the public tendering process to foreign suppliers is seen as a threat

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<sup>6</sup> A good summary of the impact of technology on the labour market can be found in David Rotman (2013), 'How technology is destroying jobs', *MIT Technology Review*, 12/VI/2013, <https://www.technologyreview.com/s/515926/how-technology-is-destroying-jobs/>.

<sup>7</sup> See chapter 2 of Robert Gilpin (1987), *The Political Economy of International Relations*, Princeton University Press, Princeton.



because it is argued that the tendency to privatise public services could start with awarding contracts for a limited number of years, which then act as a Trojan horse for completely privatising such sectors as education, health and water.

Indeed, teachers –workers– and students in state education comprise another interest group that is becoming more and more resistant to globalisation. The former do not want to be exposed to the competition that exists in the private sector. And the latter demand high-quality state education funded by public spending. Like many pensioners, they argue that wage competition with emerging economies should be restricted and capital controls should be used to retain the generation of wealth and its taxation in order to be able to fund state education. Again, this rationale would explain the hostility evident in many universities towards such free trade and services treaties as TTIP and TISA. There is a feeling that free trade benefits the upper echelons of the establishment above all, because they can provide their offspring with a better education and insert them into the transnational elite that has benefitted from globalisation. They can afford an education at Harvard or Berkeley in the US, Oxford, Cambridge or the London School of Economics in the UK or the *Grandes Écoles* in France, to give just some examples, while the children of the middle and lower-middle classes are educated at public universities with dwindling resources.

### The crisis of representative democracy

The fifth and final cause that might account for the rejection of the liberal order is the growing mistrust that large swathes of the population feel towards democratic institutions. This is due to various factors. First, many Western countries have witnessed the development of a kind of *partitocrazia*,<sup>8</sup> mainly among parties of the centre-left and centre-right, that have played an excessively dominant role in political life. For many voters, this liberal centre takes turns wielding power, but their policies are very similar. Moreover, there is the ever-growing sensation that this *partitocrazia* is at the mercy of a plutocracy, comprising major economic interests, that benefits disproportionately from the way the system operates. This leads to a lack of connection and trust between the elites and the rest of the population. The principle of authority itself is being called into question. Many citizens think that the political class does not represent them, that they are deprived of a voice (or for that matter a loudspeaker to express their ideas, as they do through social media) and think, moreover, that experts form part of this elite that benefits from the current system, which is why they fail to offer solutions benefitting the majority.

According to this hypothesis, the global financial crisis of 2008 and the way it was subsequently handled will have had social effects, the impact of which we are only just starting to discern. The credibility of experts, above all of economists, the most influential profession in the public debate, has been conspicuously damaged by their failure to predict the crisis. Thereafter the perception that the current political and judicial system benefits the elites will have been reinforced by the fact that taxpayers had to bail out banks while very few bankers have had to pay for their mistakes. On the contrary, many

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<sup>8</sup> For this concept, see Peter Mair (2013), *Ruling the Void: The Hollowing of Western Democracy*, Verso Books, New York & London.



voters feel that the banks' upper echelons have walked away with early retirement pay-offs worth millions of dollars, or euros, while ordinary employees have to work all their lives and never earn such amounts. The reputation of experts was even more damaged after the crisis. Many television viewers and newspaper readers became aware that experts were not neutral. Each expert explained the causes of the crisis from a very different perspective and put forward solutions that were often in mutual conflict. Some called for greater fiscal stimulus, while others defended austerity. This has created a good deal of confusion, while simultaneously undermining the role of experts. For many there is a sensation that each expert has his or her own agenda, and that almost all defend the liberal order because it benefits them. By the same token, it is thought that many of these experts, who are educated at the finest universities and therefore far removed from the average citizen, hold liberal values towards religion, abortion, same-sex marriage, racial diversity and gender equality that are not shared by a large part of the population, especially in the US.<sup>9</sup>

Experts' and technocrats' loss of legitimacy arises from the lack of political solutions to our societies' problems. For many years, politicians have hidden behind a veil of technical solutions. They have agreed that central banks should be independent and headed by technocrats shielded from public and democratic scrutiny. They have also delegated the negotiation of free-trade and investment treaties to experts and ceded sovereignty to international bodies such as the World Trade Organisation and the International Monetary Fund. In the case of Europe, the transfer of sovereignty to the European Central Bank and the European Commission (still far removed from voters) has been even greater. Such delegation worked well for as long as the economy and employment were growing. But with the advent of the crisis, the authority and legitimacy of the technocrats started to be called into much greater question, particularly when, amid the lack of a political response, they began to accumulate more and more power. Indeed, it may be argued that the politicians have left it to the central banks to tackle the crisis with monetary stimuli. Unfortunately, however, it is becoming more and more evident that the structural problems besetting developed societies cannot be solved by monetary policy alone.

All this questioning has led to doubts being cast on the open society and many voters being prepared to lend their support to candidates who speak in a way that connects with the ordinary citizen and promises easy solutions to complex problems. The anti-establishment message thereby succeeds in attracting an amalgam of highly heterogeneous voters, but with an ever-wider basis. It encompasses those who feel vulnerable and left behind, but also those who are doing well economically but are disillusioned with politicians and technocrats and who therefore wish to curb the power of the state and the establishment to unleash market forces. The questioning of experts emerged particularly starkly in the Brexit campaign.<sup>10</sup>

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<sup>9</sup> This idea is explained in Charles Camosy (2016), 'Trump won because college-educated Americans are out of touch', *The Washington Post*, 9/XI/2016, [https://www.washingtonpost.com/posteverything/wp/2016/11/09/trump-won-because-college-educated-americans-are-out-of-touch/?wpisrc=nl\\_most-draw5&wpmm=1](https://www.washingtonpost.com/posteverything/wp/2016/11/09/trump-won-because-college-educated-americans-are-out-of-touch/?wpisrc=nl_most-draw5&wpmm=1).

<sup>10</sup> For the rise and fall of the role of experts, see Sebastian Mallaby (2016), 'The cult of the expert – and how it collapsed', *The Guardian*, 20/X/2016, <https://www.theguardian.com/business/2016/oct/20/alan-greenspan-cult-of-expert-and-how-it-collapsed>.

## Conclusions

Donald Trump's victory in the US elections, Brexit and the rise of parties like the French National Front and the Alternative for Germany have taken the establishment by surprise and have called into question decades of moderate forces alternating power in Western countries. The causes of this phenomenon are manifold. They encompass the anger of those who have lost out from globalisation, the widespread fear of losing national identity in societies that are increasingly diverse and cosmopolitan, anxiety about technological change and its impact on employment, frustration concerning the dwindling resources available to maintain the welfare state and indignation at the unrepresentative nature of many aspects of the democratic system in an ever-more globalised world where the concept of national sovereignty has been rendered obsolete.

All these intermingle and threaten the open society and the international order that has held sway for decades and been responsible for spectacular economic progress but has also produced growing material inequalities and inequalities of opportunity in advanced societies.

Responding to the well-founded fears of their citizens is perhaps the greatest challenge confronting Western nations. The nationalist, protectionist, xenophobic and authoritarian leanings of many anti-establishment parties' new agendas need to be combated by focusing on the causes from which they arise. Simply ignoring them and hoping that the storm will blow over, as has been the habit of recent years, is a recipe for failure. Developing better policies for integrating immigrants and refugees is crucial in this context. It is also necessary to ensure a better redistribution of the enormous amounts of wealth generated by globalisation, to emphasise the advantages of diversity and to prepare citizens for technological change, equipping them with the resources to adapt themselves. It is not so much a case of protecting against the effects of globalisation as empowering citizens, enabling them to get the most out of it to the fullest extent possible. Finally, it is necessary to give a better explanation of the limitations faced by the welfare state and the reforms it needs in order to be sustainable, and to open new public forums and channels enabling citizens to feel more and better represented.