# The globalization backlash paradox

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Today, the very countries that have spent 70 years building multilateral institutions and establishing global trade rules are busy undermining them. In this context, the absence of even a whiff of protest against financial integration demands explanation.

Most economists wax eloquent about the benefits of "real" global integration – that is, virtually uninhibited cross-border flows of goods, labor, and technology. They are less certain when it comes to global financial integration, especially short-term flows of so-called hot money. Yet today's anti-globalization backlash is focused largely on real integration – and almost entirely spares its financial counterpart.

The backlash against real integration has, most recently, spurred US President Donald Trump's administration to resort to unilateral trade protectionism, targeting China in particular. In both the United States and Europe, barriers against migration are being raised. Many governments are moving to impose new taxes on technology companies deemed to be too large or influential.

In this context, the absence of even a whiff of protest against financial integration is strange. After all, financial flows have regularly wreaked havoc on rich and poor economies alike over the last 40 years. And that damage is no secret: institutions like the International Monetary Fund have highlighted it, adding caveats to their previously unfettered support for financial openness.

The lack of resistance to financial integration may reflect the salience of the problem – or, perhaps more accurately, the narrative. When it comes to real global integration, it is easy to identify perpetrators and victims; with financial integration, it is not.

Consider free trade. While it is beneficial overall, its adverse distributional effects are undeniable, and it is easy to say who gets hurt (for example, advanced-country workers in lower-value-added industries like steel) and who is doing the damage (developing countries that can produce and export the relevant good more cheaply). The losers may be a minority, but they can band together to amplify their voice and maximize their bargaining power, especially if they are geographically concentrated. With a clear target, their outrage acquires force and legitimacy.

Likewise, migration brings both major gains and, in the eyes of many, significant losses. Apparent losers may include domestic workers who are (or believe they are) affected by competition from migrants, or citizens who feel that their way of life or even identity is being threatened. It does not matter whether these claims are empirically true; they fit into a clear and compelling narrative, in which immigrants are portrayed as villains. Such a narrative, as we have seen, is a very effective mobilization tool in the hands of cynical politicians.

Of course, financial crises – such as those in Latin America in the early 1980s, in East Asia in the late 1990s, in Eastern Europe in the late 2000s, and in Europe in the 2010s – also have clear victims: those who lose their jobs, houses, or retirement savings. But it is not nearly as easy to apportion blame.

In the past – going back to the Middle Ages, in fact – the finger has often been pointed at banks. But the sources of today's "hot money" flows are not readily identifiable. Hedge funds, mutual funds, asset-management companies, pension funds, and sovereign wealth funds operate from all across the globe, in legitimate

jurisdictions and in what W. Somerset Maugham once described as "sunny places for shady people."

Even if the lenders could be readily identified, they could not be assigned all of the blame. Financial transactions always involve borrowers as well, and, unlike laid-off steel workers, defaulting borrowers (individuals or countries) are rarely innocent victims. In many cases, large borrowers have obtained their loans by deceiving the lenders or using political connections, as former Indonesian President Suharto's cronies famously did.

While salient narratives featuring specific and readily identifiable villains make real integration – despite its tangible overall benefits – difficult to sustain, the absence of comparable narratives is allowing financial integration to continue unabated. This places the world on track for a lot less of the good kind of integration, and more of the questionable kind.

Altering this trajectory calls for two types of response. To support real integration, policymakers must create ambitious – even radically so – social safety nets that protect the inevitable losers, while highlighting the overall benefits that such integration affords. Actions against perpetrators – for example, firms and countries that brazenly steal intellectual property – may also be needed, despite the potential costs.

Meanwhile, policymakers will need to do a better job of managing financial integration – a task that may be all the more challenging, because no political constituency is really demanding it. Given finance's nebulous, almost phantom-like nature, which eludes easy narrative-building, the task of taming it will be difficult. But tame it we must.

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