Dealing with the social repercussions of globalisation

Globalisation has been linked to social disintegration and political backlash against trade. How does this happen? And if we can absorb globalisation shocks to society, what are relevant policies to do so? **Kasper Vrolijk** *proposes a framework that links globalisation to social cohesion outcomes, identifying three channels through which cohesion is affected: workers, households, and firms.*

It has become increasingly clear that economic globalisation has social and political repercussions. Rodrik warned in his seminal book that ignoring the social consequences of globalisation may lead to social disintegration and political backlash against trade. A few years later, Putnam too recognised that "global economic transformations are having an important impact on community life". Indeed, anecdotal and empirical evidence suggests that recent globalisation has led to an anti-globalisation backlash and a return to protectionism.

How does globalisation induce social repercussions? And if we can absorb globalisation shocks to society, what are relevant policies to do so? In a recent paper, I propose a framework that links globalisation to social cohesion outcomes, identifying three channels through which cohesion is affected: workers, households, and firms. With this framework at hand, I review the recent evidence to understand how trade and FDI may modify six dimensions of cohesion: political and interpersonal *trust*, national and group *identity,* and civil and political *participation*.

I find that globalisation significantly affects different dimensions of cohesion, such as interpersonal trust and participation, modifying cohesion by means of absolute and relative changes in employment and expenditure (and people's perception of those changes). Unfortunately, evidence is thin, and we lack data on (i) FDI effects, (ii) some dimensions of cohesion (e.g., political trust, identity, cooperation), and notably, (iii) how *positive* globalisation shocks affect cohesion. A review of other secular or cyclical trends shows that they can account in part for changes in cohesion (e.g., automation, immigration), while globalisation shocks have likely aggravated particular trends (e.g., inequality).

How does globalisation affect cohesion?

Globalisation shocks turn out to propagate frequently outside the economic sphere. In the U.S., economic decline that resulted from increased Chinese import competition affected social identity and made individuals more likely to adopt authoritarian values. Increasing Chinese import competition also led to a rise in voter turnout, which suggests increased political participation, and to reductions in labour force participation, suggesting exclusion from society. In Brazil, trade liberalisation resulted in displacement of workers into unemployment and informality. In addition, trade shocks negatively affect physical and mental health, which in turn decreases healthcare utilisation and increases hospitalisation.

These social repercussions are relevant because they come with substantial economic costs. Interpersonal trust has shown to explain a significant part of the evolution of economic development. Furthermore, trust and cooperation reduce transaction costs, raise investment, and increase the quality of policies. Trust is also important for the efficient functioning of large organisations, such as governments and professional societies. Social cohesion turns out to increase health outcomes and healthcare services uptake as well.

These globalisation shocks operate mainly through the earnings and expenditure channel. Related evidence on recessions finds that increase in unemployment following a recession lead to reduced trust in government and interpersonal trust. While we lack evidence on how globalisation affects cohesion through expenditures, one suspects globalisation shocks, such as price inflation, may raise unease with government or enhance political participation, or reinforces group identity such that is not conducive to overall cohesion. This is what studies on food prices suggest occurs; rising prices lead to public unrest.

A recurring observation is that workers and households evaluate their attitude to globalisation shocks based on their local and own experiences. People with positive or neutral experiences of trade shocks are more likely to state that trade makes firms more competitive, increases innovation and raises GDP growth. Also, preferences for policy tend to depend on the perceived fairness of a trade shock, suggesting that identity with a particular group or with a nation is important for how people react to globalisation shocks. This implies that distributional effects, and people's perception of globalisation effects, are important in understanding how globalisation shocks translate into social repercussions.

In understanding how globalisation affects cohesion, it is furthermore relevant to acknowledge a recent trend: a rise in the market power of multinational enterprises (MNEs) in global markets. Evidence shows that a few MNEs increasingly capture large share of global markets, and by doing so are able to set prices (in product markets) and wages (in labour markets). Although we lack data, this implies that the gains (harms) from FDI on employment and expenditures are likely smaller (greater), meaning smaller positive (larger negative) repercussions on cohesion.

Of course, social cohesion may be affected by a range of other secular or cyclical trends (e.g., technological advances, rising inequality) and globalisation my not be the most important factor. Automation, for example, has shown to increase productivity levels, but also reduce the share of labour-intensive tasks in production. Evidence on the EU shows in fact that changes in cohesion are driven simultaneously by globalisation and automation. At the same time, some studies find that the social repercussions of globalisation depend on the setting in which it occurs, suggesting that globalisation may exacerbate existing grievances (e.g., inequality).

Can the social repercussions of globalisation be absorbed, and how?

The evidence suggests a range of policy options to curb the adverse repercussions of globalisation to cohesion. To address *absolute* losses in labour and expenditure from trade or foreign direct investment shocks, past policy prescriptions remain valid; introducing social benefits to temporarily mitigate losses, or investment policies to stipulate employment and wages gains, or programs that cap price hikes, are still relevant.

However, when setting policy, it is particularly important to (i) address *relative* losses from globalisation shocks, (ii) acknowledge the *economic costs* of social repercussions, and (iii) take on underlying *cyclical or secular trends* that may amplify globalisation shocks. This implies that institutions and policies should be tailored to those most likely affected by a shock, e.g., those at the low end of the income and skills distribution. Furthermore, the investment incentives that governments frequently use to attract multinationals should, in addition to evaluating labour and expenditure gains from foreign direct investment, also consider social repercussions (and the economic costs thereof), even if costs are often difficult to quantify. Finally, if globalisation is exacerbating existing grievances (e.g., inequality), it requires broader and longer-term policies to address the structural problems that underlie such grievances (e.g., education system reform).

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