

TRANSITION
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SATURDAY, FEBRUARY 4, 2017

Vladimir Popov: EU – Nationalism and Inequalities

I am grateful to Vladimir Popov of TsEMI, the Central Economics and Mathematics Institute of the Russian Academy of Sciences, Moscow, for contributing this guest post to our Blog as an extended comment on my previous post on *Seismic Faults in the European Union*.

Vladimir Popov on: EU – Nationalism and Inequalities

"Imagine there's no countries ... And the world will be one. It may happen, if the current rise in inequalities is reversed.

Mario Nuti predicts new difficulties for the EU and believes Lenin was right, when stated that United States of Europe are either impossible or reactionary (post of January 8, 2017). He may well be right, as he has been so many times, but I wish he wasn't.

In the EU for the first time in history member countries voluntarily decided to eliminate borders – a dream of many since ancient times. It was by the way also one of the staples of the communist ideology – nations eventually, after the full victory of communism, will merge, borders will disappear, a brotherhood of men will share the whole world. As the best poet of Soviet era Vladimir Mayakovsky put it,

"For we want this world to be a common earth
Without Latvias and without Russias".

Many of those born and raised in the USSR cherish this dream and admire the EU that seemed to have been able to achieve this goal without coercion and violence. It would be most regretful, if EU project will not succeed.

This is the moral argument in favor of the EU that does not prove, of course, that Mario is wrong. Many inevitable trends may be undesirable for large groups of people. Below, however, are some "hard core, material" arguments, why current centrifugal forces in the EU and the world may be only a temporary phenomenon.

Nationalism and inequalities

Conservative politicians all over the world have recently spoken against globalization. As former French Prime Minister Dominique De Villepin put it recently, "globalization, on the one hand, promotes cooperation, on the other hand, brought new mutual exclusion, isolation and radicalization". And Donald Trump wants "Americanism, not globalism".

It would be wrong, however, to blame globalization for all the disasters and misfortunes, from non-growing real incomes to the rise of nationalism. History does not repeat itself, but it rhymes. Those who blame globalization today for economic and social misfortunes are similar to the luddites of the XIX century that believed that the use of machines leads to the rising unemployment and falling wages.

There are cases when globalization works leading to rising incomes of the masses. Theoretically greater international flows of goods, ideas and technology, capital and labor should increase productivity, but in reality this happens only if these flows are carefully managed (Popov, 2014, Chapter 5)..

Why in some countries greater economic interaction with the world was accompanied in recent several decades by rising income and its relatively even distribution (China and other East Asian countries), whereas in other countries modest growth of income coupled with rising inequalities left large masses of population worse off (many Western countries, including the US, Eastern Europe and former Soviet Union)? The answer is that policy matters a great deal and many good policies that allow gaining from globalization are often non-orthodox and counterintuitive (Polterovich, Popov, 2005). If globalization is accompanied by the increase in income and wealth inequalities within countries, so that gains from globalization are appropriated by the few better off, whereas the masses get nothing or very little, it is only too easy for the interested political forces to blame globalization for the negative developments.

The central argument of this post is that the reversal of the previous trend towards the decline in income inequalities in the last three decades in most countries created favorable grounds for the rise of nationalist and anti-globalization feelings (Popov, 2016). Lindert and Williamson (2016) claim that income inequalities breed populism and attribute the rise of inequalities to globalization (especially in the two periods of American history – Gilded Age of the late 1800 and recent three decades since the 1980s). My

argument is that income inequalities indeed contribute to the rise of populism and nationalism, but that globalization does not necessarily lead to the rise in inequalities.

Trends in nationalism are explained, among other factors, by both between the countries and within the countries inequalities. If the gains from globalization are distributed evenly, the public is willing to embrace it, but if the gains are appropriated by few, it is easy for nationalist political forces to turn the public against globalization.

Hence, there are several globalization models, depending on the trend in inter and intra- country inequalities in recent three decades:

- Great gains from globalization for the country as a whole and relatively small rise in within the country inequalities (Japan, China, SEA, Scandinavian countries, the Netherlands);
- Small gains from globalization for the country as a whole, but decline in domestic inequalities (some LA countries, including Brazil);
- Large gains from globalization for the country as a whole, but increase in domestic inequalities (Britain and some continental European countries);
- Small gains from globalization for the country as a whole and increase in domestic inequalities (US, Russia in the 1990s).

The worst conditions for the rise of nationalism would be in the first group of countries, the best – in the last, fourth group, with the 2nd and 3rd group falling in between.

The rise of nationalism in recent decades in the EU and many other countries seems to be associated with the increase in within the country income inequalities. In some countries income inequalities did not increase and nationalist and anti-globalist feelings are more related to the slowdown of growth and other reasons, but in most countries there was an increase in income and wealth inequalities since the 1980s – a reversal of the trend of over 50 years that created a fertile ground for rise of nationalism (Popov, 2016).

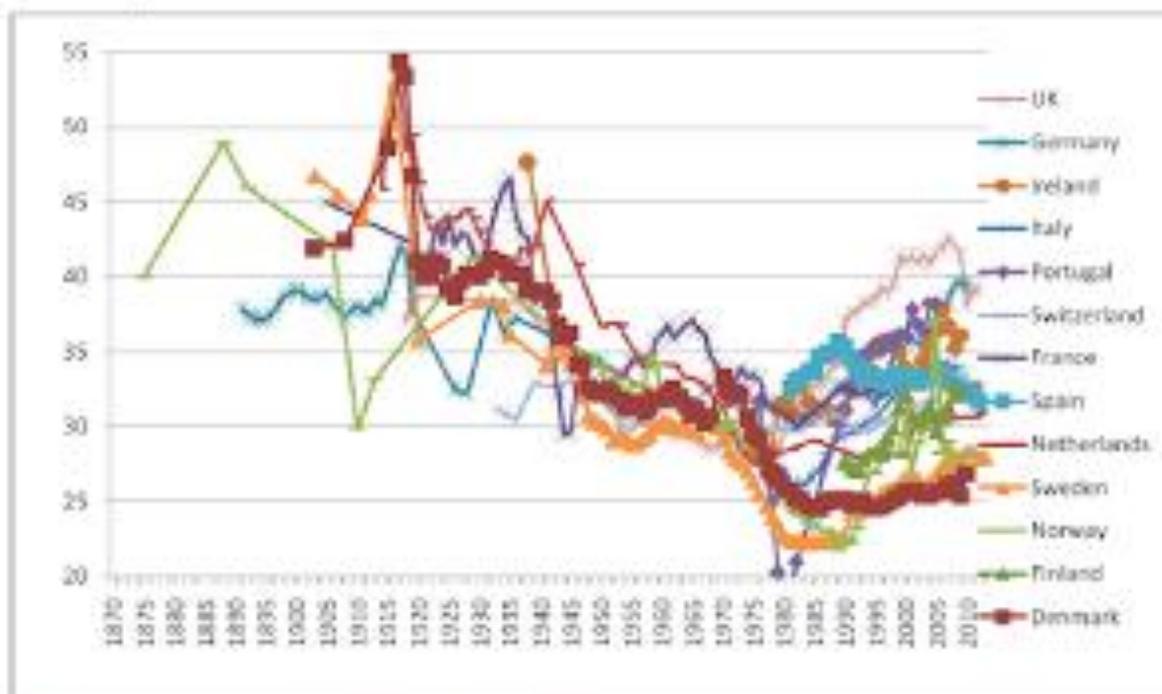
Recent trends in income inequalities in EU

The fall of the Berlin Wall, collapse of the USSR and the conversion of Eastern Europe and former Soviet republics to capitalism, added additional push to the growing income inequalities trend due to both – the disappearance of “socialist counterbalance” for the Western capitalism and the rise in inequalities in the transition

countries of Eastern Europe and former Soviet Union themselves (Jomo, Popov, 2016).

In most European countries income inequalities increased since the beginning of the 1980s – the reversal of the trend that predominated since early 20th century (fig. 1). This increase in inequalities may be the single most important reason for the rise of nationalism. In Eastern Europe there was a transformational recession of the 1990s associated with the transition to the market economy – output fell by 20-50% in the course of 2-5 years (Popov, 2000), which certainly contributed to the rise of nationalism. But in Western Europe there was no major recession (except for Greece). Even though economic growth was not very strong, it was rather stable, recessions of 1993 (per capita GDP fell by 0.4%), 2009 (-4,7%) and 2012-13 (-0.4%) were overcome and average incomes, unlike in the US, by 2016 were way higher than in the 1980s. However, the progressing unevenness in income distribution undermined real incomes and social status of large groups of European population making them an easy target for the nationalist politicians.

Fig. 1. The share of 10% richest households in total personal income in European countries in 1875-2013, %

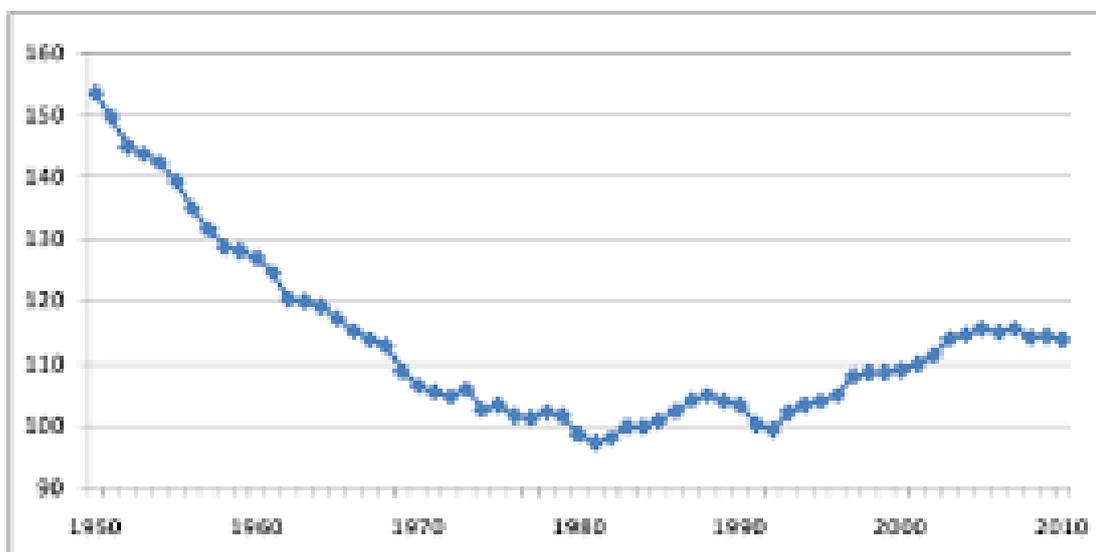


Source: The World Wealth and Income Database.

Britain may be the case in point. The rise in nationalism is often explained by unfairness and humiliation experienced by the whole nation (for instance, Germany after the First World War or developing countries where costs of globalization are often higher than benefits). In Britain, however, the recent rise of nationalism did coincide with the relatively successful economic development and with the improvement of its economic positions versus the major competitors. Britain was falling behind continental Western Europe in terms of its per capita income and this trend was reversed only a decade after Britain entered the EU (fig. 2).

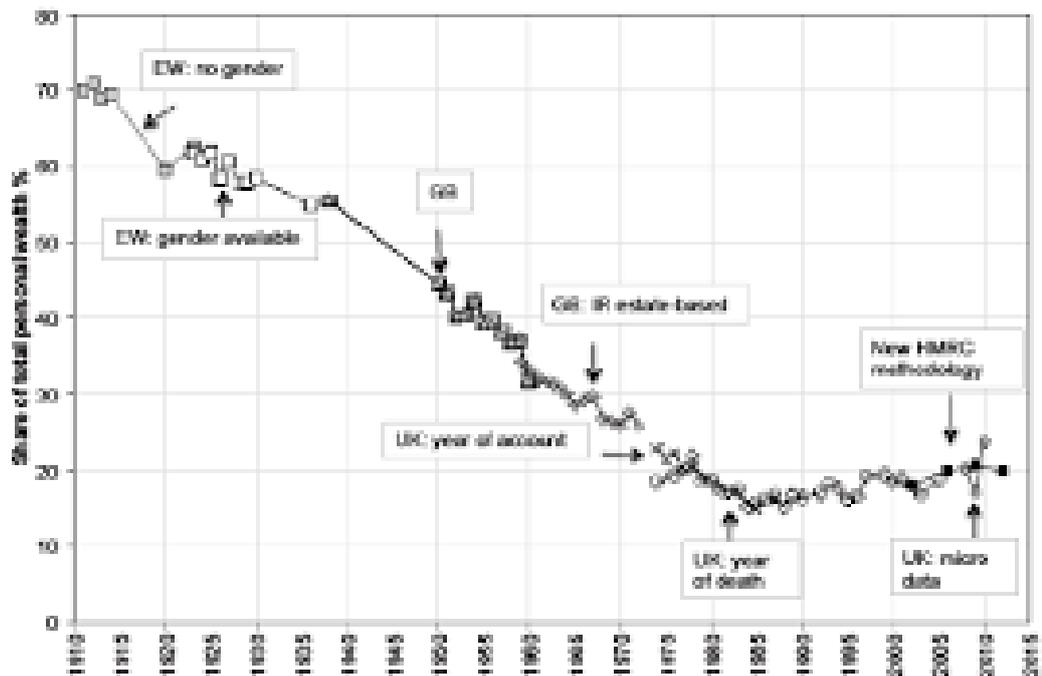
However, only a minority of the population benefited from the acceleration of economic growth since the early 1980s – income inequalities increased (fig. 1) and so did wealth inequalities (fig. 3).

Figure 2. PPP GDP per capita in Britain as a % of average level of 30 West European countries



Source: Maddison project, 2013.

Fig. 3. Different series for the UK top 1% wealth share 1911-2012



Source: Facundo Alvarez, Anthony B. Atkinson, and Salvatore Morelli (2016).

From the point of view of economic efficiency and future growth, Brexit is bad for the EU and especially bad for Britain. But the majority of British voters apparently blamed economic difficulties not on policies that allowed inequalities to increase, but on the European integration and globalization.

Future

There may be at least two scenarios for the EU and the world. First, if the rise of income inequalities would continue, social tensions in some countries will become unbearable and will produce a social turmoil and anti-globalisation, nationalist sentiments. And the rise of nationalism may lead to conflicts, if not wars, between countries, with the collapse of the international trade and capital flows, like in the 1930s. Then the world may once again get into the familiar 20th century historical track and there may be a pause in or even the reversal of globalization, like during the Great Depression, when the outburst of protectionism led to the decline of the international trade and capital movements. This is the worst scenario: the world degrading into social and national conflicts.

Second, countries that carry out successful policies of limiting inequalities would become more competitive, driving other countries "out of anti-globalisation business". Even small countries,

if they are successful, may create a counterbalance through the demonstration effect to the tendency of unconstrained capitalism to cut welfare programs and increase inequalities. These countries may regulate the functioning of the market mechanisms through direct interventions and high progressive taxation to reduce bubbles and windfall profits. Besides, the crucial way of lowering inequalities is public and collective property, so it could be expected that state enterprises, non-profit institutions, labour managed enterprises and coops, operating not for profits, but for public good would become more common. Such a more optimistic scenario implies that social upheavals within countries and national conflicts between countries could be largely avoided. EU in this case would have a bright future.

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Mario Nuti's reply:

I agree with Vladimir that a world without borders would be very attractive, as a realisation of both human freedom and economic efficiency. However it is no accident that it was part of communist utopia only after the expected universal diffusion of communism. For a world without borders involves - as I pointed out in my previous post - global communism in access to national social capital (however defined, whether as physical infrastructure, social cohesion and trust, or welfare state institutions and provisions). This is neither feasible nor desirable nor sustainable in a world where private ownership is globally prevailing and fully protected. I take it that Vladimir would not support unrestricted full communism - in the sense of abolition of both private and national social property - on a global scale or even in a single country or just in the European Union. I regard Vladimir's unconditional endorsement of the Schengen Area abolition of internal borders (and neglect of external ones) not as a cogent argument in favour of a world without borders but merely as evidence of his generous nature.

I particularly like Vladimir's characterisation of the relationship between globalisation and inequality, with his four country cases: (a) large gains, small rise of inequality; (b) small gains, inequality decline; (c) large gains, [significant] rise of inequality; (d) small gains, inequality increase. The first case would make people approve of globalisation; the last case would be associated with strongly nationalistic, anti-globalisation feelings and policies; while the two intermediate cases also would be somewhat nationalistic and anti-globalist but to a lesser extent. And at the global level, I would add even more positively and forcefully than Vladimir, globalisation has halved the incidence of poverty in the last twenty years - lifting hundreds of millions of Chinese from starvation to obesity - and achieved the reduction of inequality among the citizens of the world.

However, globalisation, including migrations, does not lead to "gains ... appropriated by the few better off, whereas the masses get nothing or very little benefit", as Vladimir conjectures. It does yield net benefits, as I readily recognised, but *it actually makes a non-negligible number of people worse off*. In theory we can imagine a redistribution of gross gains to gross losers so as to make everybody better off - which is how Vladimir would be able to

achieve a win-win situation. But such Paretian redistribution is not possible, because it would have to be international and/or regressive. International redistribution is presently impossible for lack of political globalisation, i.e. global governance by institutions capable of global taxation and expenditure. Regressive redistribution from gainers who tend to be poorer to losers who tend to be richer would be undesirable, as I trust Vladimir would agree.

And even if everybody gained from globalisation, inequality in the distribution of gains would legitimise some opposition to unrestricted, raw globalisation. Vladimir's comparison with the Luddites is very apt, but with opposite implications with respect to the one he draws: technical progress in the early 19th century (and today's automation) also yields net benefits but makes some people worse off, just like globalisation and migrations, therefore justifying – unless there was compensatory income redistribution from gainers to losers – resistance and even forceful opposition by the losers.

The dividing line between populism and democracy is very thin. It is no accident that today we talk of right wing and left wing populism. "The accusation of populism can easily become an instrument to maintain and extend the power of oligarchies, and their influence on public life and decisions, reducing any protest attempt from below to irrationality or intellectual or moral laziness. Anti-populism therefore can become a weapon in the hands of the élite, a weapon that jeopardizes the essence of democratic coexistence. While populism, if properly articulated, may be useful to democracy" (my translation from Lorenzo Del Savio e Matteo Mameli, "*Il populismo è democratico: Machiavelli e gli appetiti delle élite*" 2014), whose conclusions are based on a recent debate on Machiavelli's theses in his *Discorsi sopra la prima deca di Tito Livio*. <http://ilrasoiodioccam-micromega.blogautore.espresso.repubblica.it/files/2014/02/machiavelli-populismo.pdf>. Though growing support for populist parties is also due to non-economic factors, such as the feeling of marginalisation, of a falling standing in society, of having lost control over one's condition, determined by the establishment élite; there are also cultural, ethnic and religious diversities coming into play. When these factors determine electoral choice there is no reason to dismiss the results as expression of populism instead of an integral part and parcel of a democratic system.

Vladimir offers two alternative visions of the future. A pessimistic scenario involves rising inequalities and anti-globalist policies, the rise of nationalisms with possible commercial or even hot conflicts, a pause or even reversal of globalisation. An optimistic vision, favoured by Vladimir, involves the containment of inequality, the restoration of the welfare state funded by progressive taxation, the build-up of public and collective enterprises (including self-managed non-profit cooperatives). "The EU in this case would have a bright future" – he writes. Unfortunately there are other fault lines in the EU today, which I tried to spell out in my post and are left unscathed by Vladimir's reflections, which do not alter my fundamental pessimism.

POSTED BY D. MARIO NUTI AT 12:33 AM 

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